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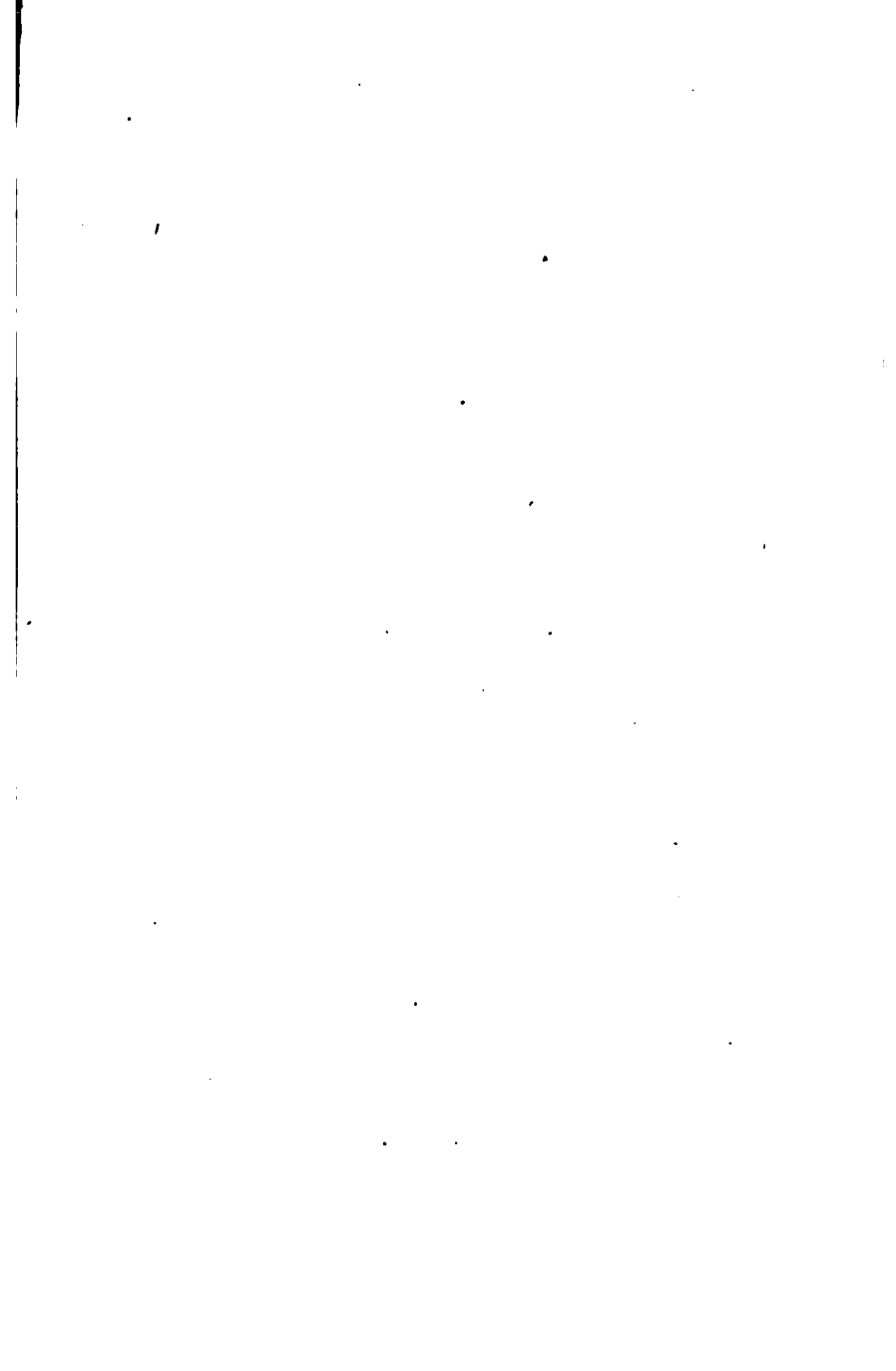
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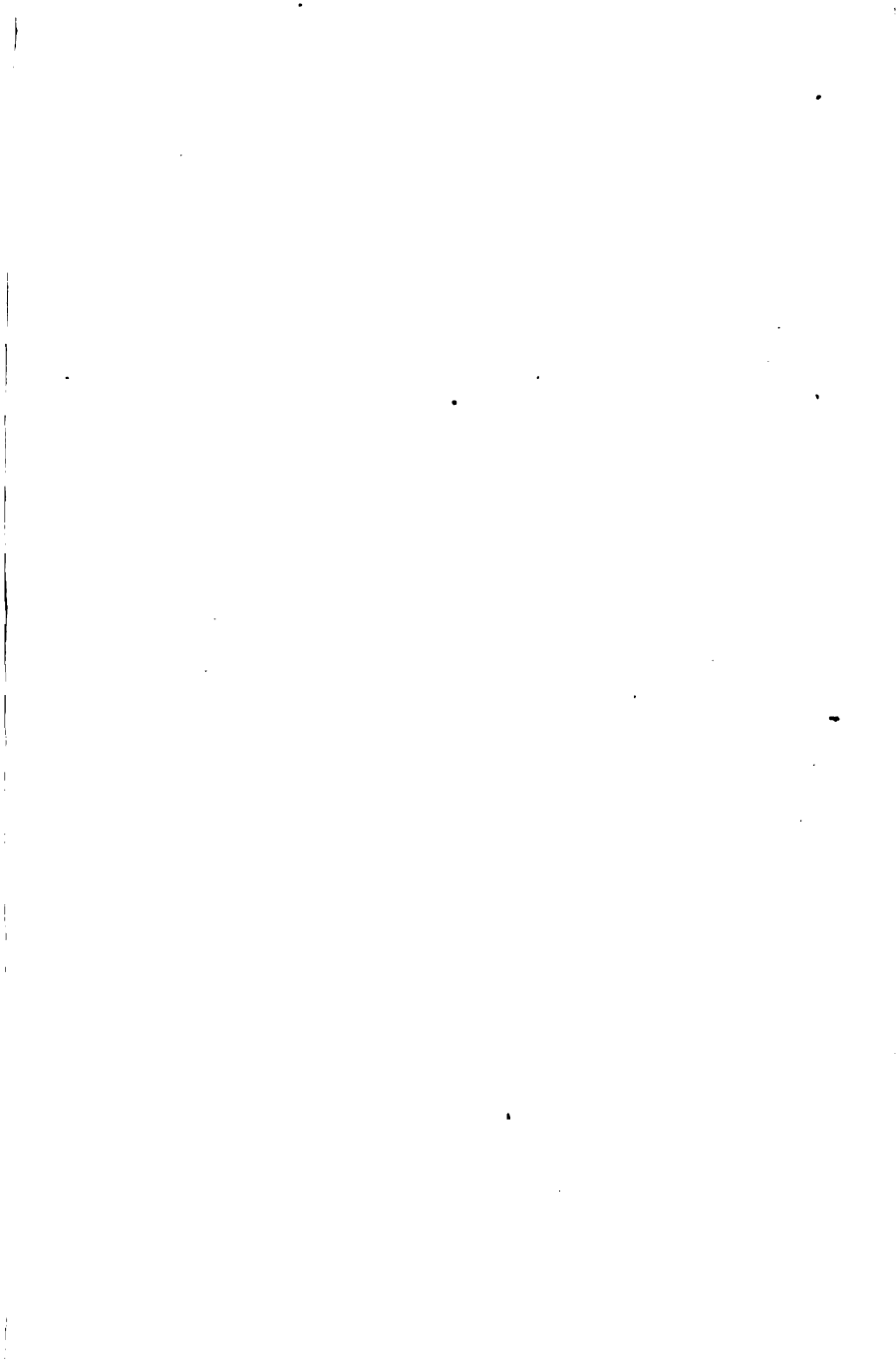
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Harlow









**MANUAL OF POLITICAL ECONOMY.**





Lab. n. 6

MANUAL

OF

POLITICAL ECONOMY.

BY

HENRY FAWCETT, M.A.

FELLOW OF TRINITY HALL, AND PROFESSOR OF POLITICAL ECONOMY  
IN THE UNIVERSITY OF CAMBRIDGE.

SECOND EDITION.

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## PREFACE TO THE SECOND EDITION.

I HAVE seen no occasion in this Edition to alter the general arrangement of the work. Every chapter has however been most carefully revised, and I have endeavoured to remove various imperfections which have been pointed out to me by the kindness of friends. The events which have happened during the last two years have enabled me to improve many of the illustrations which were introduced into the first edition. As an example it may be mentioned that I expressed an opinion, that the most efficient remedy for Strikes would be the establishment of some system of co-partnership between Employers and Employed; and I am rejoiced to find that the truth of this opinion is being recognised by some of our largest employers of labour. The schemes of co-partnership, which are now being carried out by Messrs. Crossley of Halifax, and the Messrs. Briggs of Methley near Leeds, are well worthy of the most attentive consideration.

TRINITY HALL,

*December, 1864.*



## PREFACE TO THE FIRST EDITION.

I HAVE often remarked that Political Economy is more frequently talked about than any other science, and that its principles are more frequently appealed to in the discussions of ordinary life. No science, however, is perhaps more imperfectly understood. I believe that profound mathematicians, or accomplished geologists and botanists, are far more numerous than real masters of the principles of Political Economy. Such a fact is somewhat surprising, when it is remembered that Political Economy must be appealed to, in order properly to discuss almost any political, financial, or social question. Sometimes it has no doubt happened, that people have not become generally familiarised with a science, because its principles have not been clearly explained. But Political Economy has never wanted able expounders. Adam Smith wrote the first systematic treatise on the subject, and his work will long continue to be read as a masterpiece of clear exposition. Mr. John Stuart Mill's treatise on 'The Principles of Political Economy' is perhaps the most remarkable work of that great author, and the book will be remembered as amongst the most enduring literary pro-



ductions of the nineteenth century. It is therefore necessary for me to explain the object I have had in view in writing the present work.

The end I hope to attain, I may briefly state to be this. I think that all who take an interest in political and social questions, must desire to possess some knowledge of Political Economy. Mr. Mill's treatise is so complete and so exhaustive, that many are afraid to encounter the labour and thought which are requisite to master it; perhaps, therefore, these may be induced to read an easier and much shorter work. I so well remember the great advantage which I derived from reading Mr. Mill's book, that I would not publish my own work if I thought that it would withdraw students from the perusal of a more complete treatise. I am, however, convinced that those who become acquainted with the first principles of Political Economy, will be so much struck with the attractiveness and importance of the science, that they will not relinquish its study.

I have not attempted to discuss all the principles of Political Economy in full detail; but I believe no important branch of the subject has been omitted; and I therefore think, that the principles which are explained in the present work will enable the reader to obtain a somewhat complete view of the whole science. In order to show how intimately Political Economy is connected with the practical questions of life, I have devoted a separate chapter to some subjects of great present interest; such, for instance, as Cooperative Societies—Strikes and Trades-Unions—and The Effects of the Recent Gold Discoveries. For the convenience of the ordinary reader, and especially for those

who may use the book to prepare themselves for examinations, I have prefixed a very detailed summary of Contents, which may be regarded as an analysis of the work.

I cannot conclude these prefatory remarks, without acknowledging the kind assistance which I have derived from those who have verified my statistical facts; but I have especially to thank my friend, the Rev. Leslie Stephen, Fellow of Trinity Hall. He has given me many most important suggestions, and has carefully revised the work: the accurate and complete knowledge which he possesses of the science makes his revision peculiarly valuable.

The labour of writing these pages would have been much greater, if I had not been fortunate enough to have a most patient and excellent amanuensis in the youth who is to me so faithful an attendant.

TRINITY HALL, CAMBRIDGE,

*Feb.* 1863.



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'Value of money' is an ambiguous expression—It is popularly used to describe the current interest, as represented by the bank rate of discount—In Political Economy value of money means the purchasing power of money—Hence the value of money increases as general prices decline, and *vice versa*—The value of gold in bullion must be the same as the value of gold when converted into money—The fallacy of considering that the value of gold has remained unchanged, because the price of gold never varies—The value of money is determined by the same laws as those which regulate the value or price of all mineral produce—Gold is devoted to two distinct purposes: first, it is coined into money; secondly, it is employed for purposes of art and manufacture—Quantity of gold required for the last of these two purposes does not vary greatly from year to year—Hence any increase in the quantity of gold produced must be almost entirely converted into coin—The amount of money any country requires partly depends upon the amount of its wealth, and partly upon the number of times which any commodity is bought and sold for money—The amount of money which a country keeps in circulation is no measure of its national wealth—A country requires a greater amount of money in circulation as its wealth and population increase—In the case of an ordinary commodity, the demand is equalised to the supply, by either a rise or fall in the price of the commodity;—But the price of gold is a meaningless expression; hence, in the case of money, the demand is equalised to the supply by a rise or fall in the value of the precious metals—The demand for a commodity varies with its price, but the ratio of this variation cannot be precisely defined, for it varies greatly with different commodities—This last proposition illustrated by examples—The demand for the precious metals varies *ceteris paribus*, precisely in the inverse ratio of their value, if uniformity in general prices is preserved—If we suppose that the precious metals are solely employed as money, a nation has a demand for a greater or less amount of money, in order to maintain general prices unchanged—Hence, if the wealth and population of a country increase, the demand for money will increase—It is most important that the value of gold, or, in other words, that general prices should fluctuate as little as possible—The supply of gold is *ceteris paribus* increased if the value of gold advances, because gold-mining becomes more profitable—But an increase in the value of gold is caused by a deficiency in its supply—Hence an increased demand for gold stimulates an increased supply; consequently the demand is equalised to the supply, and thus a tendency is brought into operation to preserve uniformity in general prices—This process of equalisation is analogous to that which takes place with regard to every other commodity—In the absence of any counteracting circumstances, the value of the precious metals must increase if the cost of obtaining them is increased, and *vice versa*, their value must decrease if the cost of obtaining them is diminished by the discovery of more productive mines ..... PAGES 357—375

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Foreign commerce enables the capital and labour of a country to be applied to that branch of industry for which it possesses special advantages—If two countries produce commodities at a different relative cost, foreign trade becomes profitable to them both—Hence, it is possible that foreign trade may be profitable to two countries, although all the commodities exchanged might be produced cheaper in one country than in the other—The bargain of international trade is adjusted by equalising the supply of a commodity to the demand for it—The profit arising from foreign commerce is shared between two trading countries in the inverse ratio of the demand which each has for the commodities imported from the other—If England exports iron to France, and imports wheat, and if the cost of producing iron is cheapened in England, but not in France, the terms of the international trade must be again adjusted, so as to equalise the demand to the supply—It is quite possible, under the circumstances just supposed, that the cost to France of the iron she imports may be reduced by an amount exceeding the diminution in the cost of producing this iron in England—The gain which results from international trade is distributed amongst the consumers of the commodities imported, and cannot be appropriated, either by the producers of exported commodities, or by the merchants who carry on foreign trade—Foreign trade will generally cause the price of a commodity which is exported to rise in the home market—The home producers of a commodity may temporarily suffer loss, if the price of a commodity is reduced in consequence of foreign importations—But inequalities in the rate of profit in any industry will always be ultimately removed by the competition of capital—The rent of land may be permanently reduced, if agricultural produce is cheapened by foreign importations—Foreign trade affects the price, both of the imported and exported commodity—The equation of international trade, therefore, requires a very complicated process of adjustment, since the price both of the imported and exported commodity must be such as to equalise the supply to the demand for these commodities, in both the trading countries—Foreign commerce raises the price of the commodities exported, and reduces the price of those imported—Hence labourers may be injured if the ordinary necessaries of life are exported in exchange for commodities which the labourers do not largely consume—The labourers will generally be compensated for this possible injury by an increase in their money wages, because foreign commerce economises labour and capital, and therefore enables higher wages to be paid without encroaching upon profits—The cost of exporting and importing commodities may be borne in different ratios in two different countries—The greatest portion of this cost of carriage would be borne by the country whose demand is least diminished by the commodity being increased in price, in consequence of the

cost of carriage—If it is assumed that there is perfect free trade between the two countries, then there cannot be a greater difference in the price of any commodity in the two countries than is equivalent to the cost of carriage—The principles investigated in this chapter are equally true when a great number of commodities are interchanged, and when foreign commerce is not restricted to two countries ..... PAGES 376—403

## CHAPTER VIII. *On the Transmission of the Precious Metals from One Country to Another.*

The precious metals are distributed in two ways: first, they are exported from the mining countries as an ordinary commodity of commerce; secondly, they are transmitted from one country to another in the form of money—The value of the precious metals is regulated by laws identical with those which regulate the value of any other commodity which is exchanged in foreign commerce—The precious metals are constantly transmitted in the form of money from one country to another, because, in the first place, they contain great value in a small bulk, and secondly, every kind of wealth can be purchased by gold and silver—England is to a great extent the emporium of gold; a great portion of the gold which is produced in Australia, California, &c., is in the first instance sent to her, and then distributed by her to the various countries of the world—Although England imports and exports so much gold, yet the value of gold is kept in England approximately constant—This constancy in value is maintained, because it is impossible to obtain an undue amount of the precious metals, without producing a decline in the value of gold, or, in other words, a rise in general prices—If general prices rise in one country comparatively more than in another, the balance of trade is at once disturbed; the exports from the country are diminished, and her imports increased, and a drain of specie, consequently, at once commences—There is therefore a constant agency at work, which causes the precious metals to be equally distributed over the world ..... 404—410

## CHAPTER IX. *Foreign Exchanges.*

The commodities bought and sold in foreign commerce are usually paid for by bills of exchange; this course is adopted in order as far as possible to obviate the transmission of specie—A bill of exchange is a written acknowledgment given to a creditor, that a debt due to him shall be paid on a particular day—If the exports sent to a particular country are equivalent in value to the imports received from a particular country, Bills of Exchange enable the transmission of specie to be as completely obviated as if the exports were exchanged for the imports by barter—If the imports from France exceed in value the exports from England to France, English merchants will have a greater demand for bills drawn upon France, than French merchants for bills drawn upon England—

Bills drawn upon France will consequently be at a premium—When this is the case, the exchange is said to be against England, and in favour of France—A country has consequently to export specie when the exchange is against her—Hence the expressions ‘favourable’ and ‘unfavourable’ exchange are remnants of the mercantile system—If the exchange is against a country, its money will be depreciated in value, when compared with the money of a country which has a favourable exchange—When a scarcity of gold is anticipated, bills may rise to a greater premium or fall to a greater discount than is represented by the cost of carriage—As an example, bills drawn on France rose ten per cent. when it was known that Napoleon had landed from Elba—If an unfavourable exchange always required specie to be actually exported, the premium upon bills would always closely approximate to the cost of transmitting specie—There are, however, constant fluctuations in the premium upon bills, because an unfavourable exchange may be rapidly succeeded by a favourable exchange—An unfavourable exchange cannot be of long continuance, because it exerts a tendency to diminish the imports, and to increase exports—An export of the precious metals, as ordinary commodities of commerce, does not necessarily denote an unfavourable exchange..... PAGES 411—422

### CHAPTER X. *The Functions of Credit.*

Credit signifies borrowing and lending, and therefore implies confidence—It is usually more convenient to give credit in the form of money—Credit is said to be good when there is confidence in those who borrow—The credit of an individual, as well as the credit of a state, is measured by the rate of interest paid for money borrowed—The oft-repeated maxim, that credit is capital, is a meaningless expression—Credit greatly assists the production of wealth, because wealth which is employed as capital is often borrowed from those who would not themselves employ productively the wealth which they lend—The deposit accounts which are held by banks illustrate the extent to which credit increases the capital of a country—Large public works, such as railways, could not be carried out if credit did not exist; the capital which they require is so large, that it must be borrowed from a great number of individuals—The greatest benefit which England can confer on India, is to establish credit in that country—Credit enables all the wealth which is saved to be applied to the most productive purposes ..... 423—431

### CHAPTER XI. *The Influence of Credit on Prices.*

Bills of exchange, bank-notes, and cheques may be regarded as instruments of credit—A bill of exchange is a written promise to pay a certain amount at a fixed date; a bank-note is a certain promise to pay a certain amount upon demand—Different bankers exchange their cheques at the Clearing House, and the convenience of this course is great—Bills of exchange, bank-notes, and cheques provide substitutes for money—Hence the

influence exerted by credit on prices—When commodities are bought and sold by bills of exchange, the use of money is as completely dispensed with as if commodities were exchanged by barter—If bills of exchange were not employed, one of two things would happen; either the money in circulation must be increased, or specie would rise in value—It is credit, and not the particular form in which credit is given, which provides a substitute for money—Book credits, for instance, although not existing in a transferable form, may provide as complete a substitute for money as bills of exchange—Bills of exchange cause the amount of credit which is given in a country to be much greater than it would be if book credits were alone employed—A bank-note is a more complete substitute for money than bills of exchange, because if bank-notes did not exist, money must be employed in most of the transactions which are carried on by bank-notes—If bank-notes did not exist, either more money must be brought into circulation or general prices would decline—A country requires a smaller amount of money if it employs bank-notes; hence bank-notes economise wealth, because gold and silver are valuable commodities—No effect is exerted on prices by bank-notes, if they simply occupy the place of a corresponding amount of money—General prices are advanced by a bank-note circulation if bank-notes are added to the circulation without causing a corresponding amount of money to be withdrawn—Credit increases the purchasing power of each individual, and in this way exerts a great effect on prices—The effect, though great, is, however, temporary—Credit purchases may enormously increase the demand for a commodity, and hence raise its price—This rise in price is, however, temporary, because the price of all commodities ultimately approximates to their cost of production—The great purchasing power which may be exerted by credit, illustrated by the tea speculations in 1839—The provisions of the Bank Charter Act explained—Speculative purchases which lead to a panic are not in the first instance made by bank-notes; hence restrictions upon the issue of bank-notes do not prevent commercial panics—In the latter stages of a panic, the demand for bank-notes and other money increases because credit collapses—Hence it has been always necessary to suspend the Bank Charter Act after a panic has continued some time—When trade is in its ordinary state, the bank-note circulation would not be increased if the Bank Act was repealed—The impression that the Bank Act will be suspended in a commercial crisis, increases the uncertainty and distrust prevalent at such a period—Creditors may be defrauded, and general prices may be raised without limit, if inconvertible notes are made a legal tender—These serious consequences do not occur if inconvertible notes are not made a legal tender ..... PAGES 432—456

## CHAPTER XII. *On the Rate of Interest.*

The current rate of interest is determined by the price of Funds, because these securities involve no risk—In this chapter, two questions have to

be investigated; in the first place, the causes which determine the normal or average current rate of interest must be explained, and secondly, the daily fluctuations in the current rate of interest must be accounted for—The current rate of interest must be such as will equalise the 'demand for' to the 'supply of' loans—The average current rate of interest may be affected by national character, because some nations are more prudent, and therefore satisfied with a smaller rate of interest than others—If the average rate of profit advances, the current rate of interest must also rise—The rate of profit depends on the cost of labour; the cost of labour increases if food becomes more expensive—If the current rate of interest advances, the price of securities and the price of land will decline—The causes which advance the rate of interest generally exert an influence to diminish the rent of land—Different rates of interest may prevail in different countries, because the people of one country will not invest their capital in another country without receiving some additional remuneration—Temporary fluctuations in the rate of discount or in the rate of interest are caused by variations in the demand for money—An increase in the demand for money is generally produced by contraction of credit 457—468

### CHAPTER XIII *On the Tendency of Profits to fall as a Nation advances.*

Adam Smith and Dr Chalmers erroneously supposed that the rate of profit was reduced by the competition of capital—A rise or fall in general prices need not necessarily affect the rate of profit—The average rate of profit is affected, not by the competition, but by the accumulation, of capital—The competition of capital simply exerts a tendency to equalise profits in different trades—The average rate of profit is partly the cause and partly the effect of the amount of capital accumulated—When a country advances in population and wealth, two agencies operate to reduce profits: in the first place, food becomes more expensive, and the cost of labour is increased; and secondly, a greater capital is accumulated in proportion to the profits which can be realised upon it—The decline in the rate of profit in England retarded by the great amount of capital which we invest in foreign countries—Industrial improvements, and the importation of cheap food, may prevent the cost of labour increasing as a country advances in population—This explains the fact that the rate of profit has not declined in England, although her population and wealth have both greatly increased—A nation is said to be in a stationary state, when the rate of profit is so low that the accumulation of capital does not further increase—The stationary state was more likely to be attained in the last century than at the present time—Surplus capital is absorbed, or rather destroyed, in a commercial panic; thus an influence is exerted to sustain the average rate of profit—A high rate of profit prevails in a colony, because fertile land is abundant—Agriculture must be the staple industry of a young colony—The returns to agriculture must be great when only the most

fertile soils need be cultivated—Hence, in a colony, wages and profits are both generally high ..... PAGES 469—483

#### CHAPTER XIV. *Of Over-production or Excess of Supply.*

Malthus, Chalmers, and Sismondi feared over-production, and therefore affirmed that some moral restraint ought to be exercised with regard to the accumulation of capital—Over-production has two meanings; it may either signify that commodities produced cannot be sold at remunerative prices, or it may signify that commodities are produced which are really not wanted—Over-production, in its first signification, will cause the profits of a particular trade to be low: the trade is then said to be dull or depressed, but such depression can only be temporary—The Lancashire Cotton Trade would have exhibited this first kind of over-production, if the American Civil War had not occurred—This excessive supply of cotton goods would not be wanted; they would be readily purchased, if sold at sufficiently low prices—The accumulation of capital may reduce profits, but never causes more commodities to be produced than can be consumed—If capital continues to be accumulated, the wages of labourers would be increased—As an extreme case, it may be supposed that wages are so much increased, that all the wants of the labourer are satisfied; if, then, his wages are still further increased, he will shorten his hours of toil ..... 484—490

#### CHAPTER XV. *On the Recent Gold Discoveries.*

Predictions as to the rapid depreciation in the value of gold have not been realised—It is still difficult to decide whether gold has been depreciated—The amount of gold England annually obtains from California and Australia exceeds by four times the amount she previously obtained from all sources combined—Only a small portion of this additional gold is employed in increasing England's gold currency—The gold which England imports must be devoted to one of the three following purposes: first, it may be employed in arts and manufactures; secondly, it may be coined and employed as money; thirdly, it may be re-exported to other countries to purchase commodities—The amount of gold devoted to the first purpose, though great, does not vary much from year to year; hence, any large and sudden increase in the supply of gold will not be absorbed by the first of the three modes described—As the wealth and population of a country increase, there will be a fall in general prices, unless a greater amount of money is brought into circulation—The amount of additional money which is required to preserve uniformity of prices cannot be precisely determined—A comparison of the present prices of commodities with the prices ten years since does not enable us to decide with certainty whether the value of gold has been depreciated by the recent discoveries—This uncertainty proves that the depreciation in the value of gold cannot

as yet have been considerable.—The absorption of these large supplies of gold without producing any marked depreciation in its value, conclusively demonstrates that gold must have greatly risen in value, if these additional supplies had not been forthcoming.—The gold discoveries were made at a most opportune time; free trade was then causing our commerce to expand in a most remarkable manner, and unless the supply of gold had increased, this expansion of commerce could not have taken place without great and sudden rise in the value of gold.—The increased supplies of gold have been chiefly absorbed by India and China.—The public works being constructed in India, and the great increase in our imports from China, render it necessary annually to export 12,000,000*l.* of the precious metals to the East.—The greater part of this amount is silver, but still gold is indirectly absorbed.—The silver is chiefly obtained from the currencies of France, and other countries, and a corresponding value of gold is required to take the place of this silver.—Other countries whose trade is progressing have also absorbed gold by increasing their gold currencies.—Whether gold is destined to be depreciated, mainly depends on the future condition of our eastern trade.—A depreciation in the value of gold will inevitably occur, if the export of specie to the East should greatly diminish.—The continuance of this export of specie is uncertain.—Hence a depreciation in the value of gold is a possible contingency.—This depreciation can be best guarded against by avoiding investments the interest of which is represented by a fixed money payment.—Why the gold discoveries have exerted a special influence in promoting the prosperity of Australia—Gold-digging is not more profitable than other kinds of industry, but a gold discovery acts more powerfully than any other cause to attract labour and capital to a colony.—Other kinds of industry in a young colony involve, in the first instance, great risks; a supply of labour must be insured, and much fixed capital has to be expended in constructing roads, &c.—These obstacles impede gold-digging less than any other industry ..... PAGES 491—511

## BOOK IV.

### TAXATION.

#### CHAPTER I. *On the General Principles of Taxation.*

Mr. Mill and others give to this portion of the subject the general title 'The Influence of Government'—We think it advisable to limit this portion of our subject to an enquiry into taxation—Adam Smith's four rules, or 'canons' of taxation are the following—1st. Taxation should be equal; 2nd. Taxation should be certain in its amount; 3rd. Taxes should be levied at the time and in the mode which causes the least inconvenience to the tax-payer; 4th. A tax ought to obtain for the Government as much as possible of the whole amount which is really levied from the tax-payer



—Equality of taxation is impracticable, if it means taxing people in proportion to their means; this illustrated by the case of two individuals possessing equal incomes, one of whom is married, the other is not.—With the view of obtaining equality of taxation, it would be useless to attempt to tax people in proportion to the protection which they derive from Government.—The first principle of taxation is enunciated by Adam Smith in very ambiguous language; he affirms that when there is equality of taxation, people are taxed in proportion to their ability to pay.—Equality of taxation will not be secured, if it is attempted to apply this principle to one special tax.—Equality of taxation is best secured by a rough process of compensation ..... PAGES 515—527

CHAPTER II. *On the Income-tax.* ✓

The proposal that temporary incomes should be taxed at a lower rate than permanent incomes is supported, in the first place, upon arithmetical grounds, and secondly, upon the general principles of taxation.—The arithmetical argument is conclusive, that temporary incomes ought to be taxed at the same rate as permanent incomes, if it is assumed that the income-tax is uniform in amount, and permanent.—Temporary and permanent incomes ought to be differently rated, if the continuance of the income-tax could ever be restricted to a definite period.—Experience proves that this is impossible.—The difficulty and expense of collecting the income-tax would be greatly increased, if an equitable rating of temporary and permanent incomes should be attempted.—It is generally affirmed that the income-tax ought to be so adjusted, that each person should contribute to it in proportion to his means.—This principle, even if it could be carried out, would not necessarily secure equality of taxation; this proposition illustrated by considering the remission of the tax upon small incomes.—Various other difficulties described, which render the adjustment of the income-tax almost impracticable.—The incidence of a tax distinguishes the real from the nominal payer of the tax.—The incidence of the income-tax will partly fall on the labourers, if any portion of the tax is paid out of capital.—The wealth of a country may be seriously affected by an income-tax, if the tax diminishes the national capital.—Hence, in India an income-tax would produce very serious consequences, because there capital is accumulated very slowly.—In England an income-tax produces none of those serious consequences, since we always have a large surplus capital to invest in foreign countries.—If the income-tax is remitted upon incomes less than 100*l.* a year, this amount ought to be deducted from all larger incomes, and only the remainder should be taxed.—A graduated income-tax would be extremely pernicious.—One serious inequality affecting the income-tax, is caused by the power which some classes have of evading it ..... 528—551 ✓

### CHAPTER III. *Taxes on Commodities and other Indirect Taxes.*

Distinction between a direct and an indirect tax; the former is really paid by the person from whom it is levied; the latter is levied from one person, and paid by another—A tax is often made indirect by custom; for instance, the poor-rates are often paid by farmers, and are therefore an indirect tax—Poor-rates might be paid by the landlord; they would then be a direct tax—None of our taxes on commodities are protective—Taxes on commodities must be generally characterised by inequality, because they can rarely be made *ad valorem*—Taxes on commodities are generally certain in their amount, and therefore obey Adam Smith's second rule—As far as the consumer is concerned, taxes on commodities are always paid at a convenient time, and therefore obey Adam Smith's third rule—Some taxes, such as the tax on hops, are obliged to be levied from the producer at a very inconvenient time—The convenience of Bonding Houses—Taxes on commodities ought, as far as possible, to be made consistent with Adam Smith's last rule—Customs duties are most inexpensive to levy in an island, because a land frontier is more difficult to protect against smuggling—Excise and customs duties should be confined to a few articles of consumption—The most serious objection against taxes on commodities is due to the fact that a tax increases the price of a commodity by an amount which exceeds the amount which the tax yields to the State—This objection ought to be, as far as possible, guarded against; hence a manufactured commodity ought to be taxed in preference to the raw material—A tax on a manufactured commodity is objectionable, because it necessitates the enforcement of vexatious regulations by Government officers—It is intended that import and excise duties should be paid by the consumers, but an export duty is supposed to be mainly paid by foreigners—This, however, rarely happens; such a duty usually diminishes the export trade of a country, and thus decreases her national wealth—It would be most disastrous for England to impose an export duty on silk goods, because, as far as this branch of industry is concerned, we should be unable in foreign commerce to compete with other countries—The theory of international trade proves the impolicy of protective duties—Landowners are the only class that can be permanently benefited by protective duties; the value of the natural monopoly which they possess may be artificially increased by protection—Protective duties cannot, in the long run, increase the profits of any class of traders, because the competition of capital equalises profits in different trades—The Corn Laws benefited the landowners, not the tenant-farmers—The increased prosperity of the country compensates landowners for the abolition of protective duties; this illustrated by the rise in the rent of land in this country since the passing of free trade—An industry artificially fostered by protection may be destroyed by free trade; but this cannot be ultimately a loss to a nation—In Victoria, Australia, a protective

tariff is on the point of being introduced; the mischief of this policy explained—A comparison between direct and indirect taxation useless—Each system has its peculiar disadvantages; hence equality of taxation is best secured by raising the revenue, partly by direct, and partly by indirect taxes ..... PAGES 552—578

#### CHAPTER IV. *On the Land-Tax and Poor-Rates.*

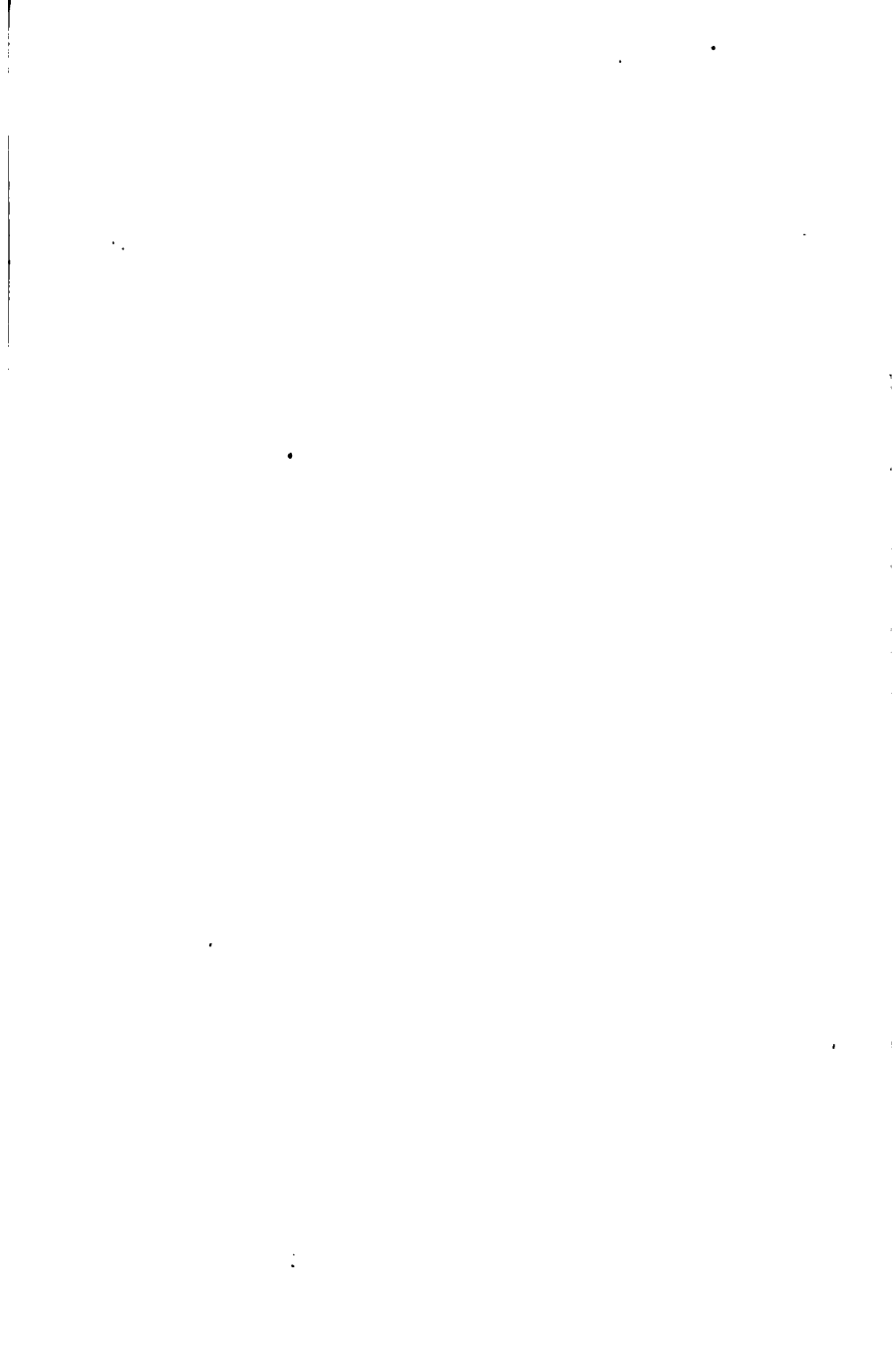
The chief part of the revenue of India is raised by a land-tax—A land-tax is simply rent—A land-tax neither diminishes the profits of the cultivator nor increases the price of agricultural produce—If a land-tax exceeds a rack-rent in amount, the price of agricultural produce must rise, and therefore the consumers of this produce will be virtually taxed—The importation of produce will be encouraged if the land-tax exceeds a rack-rent; hence land will be thrown out of cultivation, and the land-tax will yield a smaller revenue—The land-tax in this country is small, because commuted at a fixed money payment—The tax-payers would have been benefited if the land-tax had not been thus commuted, but had been fixed at a certain definite proportion of the value of the land—A tithe may be regarded as a rent-charge, and tithes neither diminish the profits of the cultivator nor affect the price of agricultural produce—The Tithe Commutation Act not quite fair to tithe-proprietors, because tithes are not affected by a rise in the price of stock—Agricultural improvements may be impeded if tithes are not commuted—Poor-rates are in their incidence analogous to a land-tax—The present Poor-law not capable of any radical improvement—The benefit resulting from the present poor-law is chiefly due to the checks it places upon out-door relief—Malthus and others strongly objected to the principle of guaranteeing subsistence to the poor—Their objections were chiefly based on the evil consequences which resulted from granting out-door relief too freely—Some disadvantages are necessarily associated with the most perfect system of poor-law relief; thus a poor-law requires a law of settlement, and since poor-rates are parochial, an equalisation of poor-rates cannot be attained—The poor are often injured by landlords refusing to have proper cottage accommodation on their estates, in order to diminish the poor-rates—A national poor-rate would be most pernicious, because it would be sure to be administered with extravagance—A Union-rate would not be so objectionable—Poor-rates, though nominally paid by the tenant farmer, are really deducted from the rent of the land-owner—This does not hold true with regard to rates which are levied upon buildings—The occupier of a house really pays the rates unless the house is situated in some special situation, where the number of houses that can be built is absolutely limited—Such a situation is Charing Cross; in this case rates really fall upon the owner of the land—Poor-rates and other rates which are levied upon manufactories increase the cost of production; hence these rates are really paid by the consumers of manufactured commodities ..... 579—596



# POLITICAL ECONOMY.

## BOOK I.

### PRODUCTION OF WEALTH.



## CHAPTER I.

### INTRODUCTORY REMARKS.

ALL those who have studied an exact science must have experienced the formidable difficulties which elementary chapters invariably present. The young mathematician may well be staggered at the discussions usually annexed to the enunciations of the laws of motion; the axioms in his Euclid, which he is told to believe are self-evident propositions, offer philosophic questions of such complexity, that they continue to form an arena upon which the subtlest intellects of the day contend.

BOOK I.  
CH. I.  
*Difficulty  
of the first  
elements of  
political  
economy.*

A definition of political economy, and an inquiry into the method of investigation that ought to be pursued in this science, involve considerations which are sure to perplex the beginner; but the young mathematician need not be driven away from his Euclid because philosophy has not decided whether axioms are intuitive truths, or truths learnt from experience; and in a similar way, the student of political economy ought not to have his faith shaken in the truths of this science, because he has learnt beforehand that political economists still dispute upon questions of philosophic method.

We ask such a student to accompany us with an unprejudiced mind; we will promise to lay before him truths of great interest and great importance; we will endeavour to render them intelligible to the ordinary intellect, and when such a body of truths has been accumulated in the student's mind, he will be in a position to understand the

BOOK I.  
CH. I.

*Prejudices  
against  
political  
economy.*

exact nature and scope of the science to which they belong.

Although it is not advisable in this place to attempt a precise definition of political economy, yet it is necessary to give a general idea of the class of phenomena which this science investigates; and it is all the more important to do this, because the vagueness of popular conceptions has generated a vast amount of prejudice towards political economy. Hardhearted and selfish are the stereotyped epithets applied to this science. Ill-defined antipathy is sure not to rest long suspended upon a mere abstract idea; it seeks some concrete object, and therefore the epithets applied to the science are speedily transferred to those who study it, and a political economist exists vaguely in the haze of popular ignorance as a hardhearted selfish being, who wishes to see everyone rich, but who has no sympathy with those higher qualities which ennoble the character of man. The error of this ignorant prejudice shall be abundantly exposed in these pages; but we will make a few preliminary remarks upon it, in order to convince the student that the political economist is not the harsh being generally portrayed, but that he possesses that information which tells him how to improve the lot of his fellow-men. He may therefore be the most useful of all philanthropists; because a mere desire to do good without any principles of guidance is ever liable to be a futile and a misdirected effort.

*Political  
economy is  
primarily  
concerned  
with wealth.*

Political economy is concerned with those principles which regulate the production, the distribution, and the exchange of wealth.

The first great work on political economy was called by Adam Smith 'The Wealth of Nations;' but political economy is concerned alike with individual and national wealth. Those who share the popular error above alluded to, make this inquiry, Has a nation no other mission to fulfil than to become rich? and should wealth be to the



individual the one absorbing aim of life? But political economy never even gives colour to the suspicion that the creation and accumulation of wealth ought to be the great object either of a nation's or of an individual's existence. The springs of life's action are numerous; society is held together by a vast aggregation of motives and sympathies. Wealth is necessary to man's existence; a great portion of human exertion is stimulated by the decreed necessity to labour, in order to procure the commodities which maintain life. When, therefore, we endeavour to consider the phenomena connected with the production and distribution of wealth, we do not wish, in a feeling of opposition, to ignore the other phenomena of man's social existence; we isolate this class of phenomena, because the necessities of scientific investigation demand it. Every social question, either directly or indirectly, involves some considerations of wealth, and therefore has an aspect from which it must be considered by political economy. Thus it may be proposed to extend to the whole nation the system of compulsory education, introduced by the Factory Act. Political economy would point out how production in this country, and how the wages of the labouring classes, would be affected, by compelling every child under thirteen years of age, who might be employed in any kind of labour, to attend school a fixed number of hours per week. This is an aspect of the question which must and would be considered, but even if the political economist should prove that the production of commodities would be rendered more expensive, he might be the first to admit that such a loss of national wealth would be abundantly compensated by the increased intelligence of the labouring population.

*but does not ignore other motives than the desire for wealth.*

Numerous other examples might be given which would still further prove the complete fallacy of the accusation which is so constantly brought against political economy, that it is a science which encourages selfishness and degrades the best feelings of human nature. If a political

economist considers that the only aim and end of life is the accumulation of wealth, then the individual ought to be blamed, and not the science which he professes. Political economy if kept within its proper limits does not provide a code of social ethics which will enable us to decide what is right or wrong, and what is just or unjust. It is the business of political economy to explain the effect which any circumstance such as the imposition of a tax, or the enforcement of a particular landed tenure, will exert upon the production, the distribution, and the exchange of wealth; and it is therefore manifest that political economy cannot take account of various other consequences which may be independent of any considerations concerning wealth. Thus, to revert to our original illustration, the principles of political economy will enable us to ascertain in what manner the wages of labourers and the production of wealth will be affected by a compulsory system of national education. Hence the department of this question which belongs to political economy is, as it were, separated from those other departments of the question which investigate whether or not the morality and the social happiness of the people are increased by a system of national education. It is therefore a fundamental error to suppose that political economy ever asserts that the higher motives which actuate human actions ought to be discarded in favour of wealth. Some writers on this science when discussing social questions may consider only that part of a subject with which political economy is concerned, and thus the error may be committed of establishing general conclusions from an incomplete investigation. Hence political economists have sometimes appeared to be harsh and narrow-minded, but it is as idle upon these grounds to accuse political economy of being selfish and hardhearted, as it would be to blame geology because an injudicious and enthusiastic geologist pretended to despise other branches of physical science.

It must moreover be borne in mind that although sentimental moralists may profess to sneer at wealth as one of the idle vanities of this world, yet there can be no doubt that, even in England, the great besetting evil of the nation is the poverty of the humbler classes, and that these people cannot make any great social advance until a decided improvement has taken place in their material condition.

We have described political economy as a science which is concerned with the production, the distribution, and the exchange of wealth. But the meaning of wealth, though a word of every-day use, will not probably be adequately understood without some elucidation.

*Meaning of  
the word  
'wealth.'*

Wealth may be defined to consist of every commodity which has an exchangeable value.

The necessity of the limitations introduced into this definition may be readily shown. The air we breathe is of course not only a want, but a necessity of life; yet it cannot be regarded as wealth, because its supply is unlimited, and it therefore has no exchangeable value. Water very generally can be obtained in an unlimited quantity, and therefore it is not wealth; but the population of a large town would soon absorb all the water which nature spontaneously provides, and therefore water must be supplied by artificial means. It then at once possesses an exchangeable value, and is justly considered to be wealth. Wealth, therefore, is not determined by the nature and quality of a commodity, but rather by the circumstances in which that commodity may be placed. A gallon of the water which flows from the springs at Amwell is not, there, wealth; it would be as valueless to sell as a cubic foot of air, because there, a supply of water can be as easily obtained as a supply of air; but that same water conveyed a few miles, to the metropolis, produces the large annual revenues of the New River Company.

*Exchange-  
able value.*

The character of wealth may be also given to a commodity by the shifting caprice, or by the changing wants

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of man. It thus becomes evident that exchangeable value is the characteristic which stamps a commodity with the attribute of wealth.

*Various amounts of wealth in different ages and countries.*

The most striking variations in wealth are exhibited by the same nation in different ages, and by different nations in the same age. There was a time when England was as poor as any country which is now consigned to the wandering savage, and yet she possessed then those same natural resources which now so materially contribute not only to form but to sustain her present wealth. The richest seams of coal were almost unworked, but in those remote times her population was in a condition in which they could have no demand for coal, and therefore this article had no exchangeable value; and that same commodity which is now so valuable, could not then be legitimately classed as wealth. Hence it is manifest that the social condition of a nation and the state of its civilisation determine to what extent natural resources may be classed as wealth.

Each stage through which progressive nations have advanced from barbarism to civilisation is preserved at the present time in some parts of the globe. The savage still exists who lives by hunting and fishing; the wandering Arabs are true types of the ancient nomad tribes whose flocks and herds were grazed on natural pastures without the aid of the large supply of food which would be yielded even to the rudest agriculture. The village communities of the East remain instructive examples of the patriarchal type of life; the stereotyped condition of China exhibits the features of a remote civilisation. These great differences in wealth are partly due to physical causes, but they mainly depend upon social circumstances, and as far as they do so, form the appropriate topics of political economy. The mind of an Englishman so habitually contemplates progress, that it is difficult to keep in view how large a portion of the habitable globe is in an abso-

lutely stationary state. It is the duty of the political economist to explain not only the conditions which determine progress in the national wealth, but also the causes which tend to make the material state of a country either stationary or retrogressive.

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It is even at the present day important to direct careful attention to an erroneous conception of wealth, which was universal until the appearance of Adam Smith's great work, about eighty years since. The error when once exposed may appear incapable of misleading a child, yet no error was ever more tenaciously clung to; it not only corrupted speculative science, but it infected the whole commercial policy of every European nation. These errors are associated with the policy which has received the name of the mercantile system. The essence of the mercantile system was to identify wealth with money. Now the use of money is one of the first signs which marks a nation's progress from barbarism towards civilisation. Societies even comparatively rude must be impressed with the necessity of adopting some medium of exchange. This will be readily understood by a cursory glance at the general functions which money fulfils. In the first place, money provides the measure by which to record the value of each commodity. If, for instance, it is known that a sack of wheat is worth twenty shillings, the value of the sack of wheat, compared with any other article, can be at once ascertained when the price of this last article is known. Money, moreover, is not only a universal measure of value, but is also a universal medium of exchange. A man may possess a store of wheat which he requires to exchange for various other commodities; money provides him with the machinery by which this can be readily effected. The wheat has simply to be sold for so much money, and with this money a certain amount of the other commodities required can be purchased. But if the use of money did not provide a general medium of exchange, the whole transaction must be

*Erroneous view of wealth.*

*The mercantile system.*



# POLITICAL ECONOMY.

BOOK I.

PRODUCTION OF WEALTH.

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CH. II.  
and capi-  
tal.

accumulated? This food also required the application of labour; therefore, since the labourer must be fed by previously accumulated food, a third requisite of production is suggested, for some of the results of past labour are required to be set aside to sustain the labourer whilst labouring. The third requisite of production, therefore, is a fund reserved from consumption, and devoted to sustain those engaged in future production. This fund is termed capital.

The early steps of a student in almost every science are met by certain obstacles; if he succeeds in surmounting these obstacles, his future progress seems to be insured. The young mathematician who obtains a firm grasp of the physical conceptions involved in the laws of motion, will comprehend with facility problems of apparently great mathematical complexity. The questions involved in considering the functions of capital, will test a man's capacity to master the principles of political economy. Success in the study of this science may be regarded as guaranteed to all who obtain a clear insight into the nature of capital.

*Capital is  
the result  
of saving.*

There are certain fundamental propositions concerning capital which should be kept steadily and constantly in view. One of these is as follows:—Capital is the result of saving. This saving may not be primarily prompted with a view of assisting future production. The results of labour, however, are not rendered immediately available for consumption: the ploughman who ploughs the soil must wait for months before the wheat which his labour contributes to produce, will be ready for human food; but the ploughman must be fed, and he is fed with food previously accumulated. The labourers, too, who have constructed his plough, must be fed on food which has been saved from previous consumption; for a considerable time must elapse before the harvest can be gathered from the soil which the plough has assisted in tilling. Capital, therefore, represents all that has been set aside



from the results of past labour to assist present or future production. It will now be perceived that capital is as indispensable a requisite of production as either labour or appropriate natural agents.

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CH. II.

## CHAPTER III.

## LABOUR AS AN AGENT OF PRODUCTION.

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CH. III.

*Wealth involves the application of labour*

IT is manifest, from the remarks which have been made in the previous chapter, that labour is indispensable to the production of wealth. As we proceed to describe the purposes to which labour is directed, it will be observed that labour creates utilities. Nature supplies the materials, but labour fashions these materials, arranges them, places them in those situations in which they are required, and in fact renders them in every respect suited to satisfy the wants of life.

*in complicated processes.*

The greater number of commodities, before they become serviceable for man, pass through many complicated processes, each of which necessitates much complex labour. Trace the cotton seed, first sown in the swamps of Georgia, then supplying material to the looms of Manchester. Watch the woven cloth transported to the far East, there destined to clothe the inhabitants of some remote valley of Scinde. Attempt such an examination, and we at once become almost overwhelmed with the endless series of labourers who have ministered to the production of so simple a commodity as a piece of cotton cloth. There are the slaves who cultivate the cotton plant in Georgia, and prepare it for exportation. The cotton has to be brought to the port. Shipwrights must have constructed the ships which carry the cotton from America to England; sailors must navigate these ships; dock-labourers are required to unload the cotton; the railway on which the

cotton is carried from Liverpool to Manchester has been constructed by the industry of numerous classes of labourers; and the cotton, before it is woven into cloth, passes through the hands of a succession of workmen whose skill is assisted by machinery—to the creation of which almost every class of labourers has contributed, from the collier to the skilled and thinking mechanician; every one may also be regarded as an important participator in the work who has, by his saving, contributed to the accumulation of the capital by which the industry of the labourers has to be sustained. We are quickly carried into endless ramifications if we attempt to ascertain the labour which has, either directly or indirectly, assisted in the production of an apparently simple commodity.

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CH. III.

Although no wealth whatever can be produced without labour, yet there is much labour which does not contribute to the creation of wealth. Hence, labour is divided into two great classes, productive and unproductive labour. This is a distinction which, in name, is familiar to those who have not studied political economy.

*Productive  
and unpro-  
ductive  
labour.*

Before the characteristics which distinguish productive from unproductive labour are explained, it will be necessary to revert to our primary conception of wealth. Nature, as has been before remarked, supplies the materials. Man is powerless to create any material object; he combines substances together which would never be combined without his interposition, and thus creates a product which nature could never construct without his aid. Man takes the wheat and puts it in that situation where it will be ground; with the flour he mixes a certain quantity of water and yeast, and when he has brought the mixture within the influence of the requisite heat, a loaf of bread will have been made. It is through the agency of man's labour that these utilities are embodied in material objects which give them their exchangeable value. For instance, the utility which man confers upon coal is to

*Functions  
of labour*

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 in confer-  
 ring utili-  
 ties directly

place it in those situations in which it may be required. There can be no doubt, therefore, that all that labour is productive which confers utilities upon material objects.

Such is the labour of all ordinary workmen. Agricultural labourers, manufacturing operatives, bricklayers, &c., must all be manifestly ranked as productive labourers. All those, too, who are employed in transporting merchandise from one place to another, are productive labourers, for they confer upon commodities the utility of being in the place where they may be required. The labour of policemen and others who are engaged in protecting industry is productive, because they confer upon commodities the important utility of security. But even the labour of productive labourers is not unfrequently unproductive. Public works have been commenced and abandoned; the labour which was bestowed upon these is of course wasted. A railway was constructed from Chesterford to Newmarket; it was closed almost from the first; there is now no chance of its being reopened, for the company has commenced reselling the land to its original proprietors; and thus the labour of even the most useful workmen may be unproductive.

or in-  
 directly.

There is also labour which is eminently useful, but which, however, does not directly contribute to the production of wealth. As an example of this, it may be mentioned that, not many years since, the uneducated labourer was considered as efficient as the educated labourer, and employers were heard to regret those days when there were no schools to corrupt the industrial virtues of the workmen. When such opinions were current the labour of the schoolmaster must have been considered entirely unproductive, because it would have been supposed that, even if he did not interfere with, he certainly did not promote the efficiency of the labourers, regarded as mere machines for the production of wealth. But now facts are every day coming to light which must impress us with

the conviction that the schoolmaster may occupy a most important position in the material economy of the nation. Even to manual labourers a properly developed mind is as essential as a well developed body; and there can be no doubt that he who contributes in any manner to improve either the physical or intellectual condition of the people takes no unimportant part in assisting the nation's wealth. Much labour, therefore, which at first sight may seem unproductive will appear, on further consideration, to exert an indirect influence upon the production of wealth. Popular notions attach a certain stigma to unproductive labour. No doubt, waste of any kind is to be deplored; but we should not be too prone to regret that so much labour is devoted to provide the pleasures of life, for the happiness of a nation may be in some degree estimated by the time and labour which can be spared for enjoyment, and even the labour of those who provide these enjoyments is not altogether unproductive; a man will work with more vigour and efficiency if his mind can be diverted from the routine toil of life.

From these remarks we are able to deduce a precise definition of productive labour. The definition given by Mr. Mill, and the one which is usually accepted, is as follows:—‘Productive labour is that which produces utilities fixed and embodied in material objects.’ According to this definition, the labour of the teacher is unproductive from whose instruction a mechanic acquires his skill. And yet the skill of our workmen ought to be classed as wealth, because the loss of this skill would diminish the wealth of the nation, as much as if she were deprived of a great amount of material wealth. If, however, the skill of the labourer is classified as wealth, we strain the use of the word wealth beyond its usual acceptation, because wealth is always popularly conceived to be something material. We will therefore adopt the following definition:—Productive labour is that which either di-

*Definition  
of pro-  
ductive  
labour.*

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CH. III.

rectly or indirectly produces utilities fixed and embodied in material objects. According to this definition, the labour of the teacher who imparts skill to the mechanic is productive, for by this skill wealth is created—or, in other words, utilities are embodied in material objects, and therefore the labour of the teacher *indirectly* produces these utilities, and his labour must consequently be classified as productive. The definition, moreover, obviates the necessity of running counter to popular language, for this is undoubtedly done if we denominate as wealth such an immaterial object as the skill of a mechanic.

*Productive  
and unpro-  
ductive con-  
sumption.*

For the purposes of political economy, there is another distinction, as important as that between productive and unproductive labour. Much of that which is produced is destined to be wasted, or to be consumed unproductively. The wants of those who never contribute, either directly or indirectly, to the wealth of the nation must be supplied by the results of productive labour; and hence a portion only of the results of productive labour assists in the formation of new wealth. Consumption, therefore, as well as labour, may be either productive or unproductive.

Although the entire consumption of unproductive labourers must be unproductive, yet it does not follow that commodities are always consumed productively by productive labourers. For instance, even the poorest labourers in this country purchase some luxuries which they could abstain from, without in the slightest degree diminishing the efficiency of their labour. All such purchases, therefore, even if made by the most productive labourers, denote unproductive consumption.

The distinction between productive and unproductive consumption will assume considerable importance in the remarks we are about to make upon capital.

## CHAPTER IV.

## OF CAPITAL.

WE have already explained that capital is as indispensable a requisite of production as either labour or appropriate natural agents. A very little consideration will render it evident that labourers, whilst engaged in any particular industry, cannot live upon the commodity which their labour is assisting to produce. The ploughman who tills the soil from which, in the following autumn, the harvest will be gathered, is fed with the wealth which his master has saved; or, in other words, the master pays his labourer's wages from the wealth which he has previously saved. The production of wealth, therefore, cannot proceed unless some of the wealth previously produced has been set aside from immediate consumption. The wealth which has been accumulated with the object of assisting production, is termed capital; and, therefore, the capital of the country is the wealth which is not immediately consumed unproductively, and which may, consequently, be devoted to assist the further production of wealth. This is a wide definition, but it is correct and sufficiently definite until the subject has been more fully elucidated.

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*Definition  
of capital.*

In the general introductory remarks upon wealth, particular attention was directed to that current fallacy which confounds money with wealth. The student, in obtaining his primary conceptions of capital, is not unfrequently confused by a similar fallacy. Capital, like

*Fallacy of  
confound-  
ing capital  
with money.*

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CH. IV.

other wealth, is estimated and expressed in money. Hence the idea is encouraged that capital consists of money, to the exclusion of any other commodity; although, perhaps, adhesion would not often be professed to such a proposition when stated in plain terms; yet, when the error can be partially concealed in some of the difficulties of complicated questions, it will be found to vitiate the speculations of many a pretentious thinker. Capital, let it again be borne in mind, is all that wealth, in whatever shape or form it may exist, which is set aside to assist future production. It is true that if, for instance, you ask a farmer how much capital he has with which to work his farm, he will reply that he has so many thousand pounds, but his capital is not actually in money, and even if it was in money it could not fulfil the functions of capital until the money had been exchanged for various commodities. For why does a farmer require capital to work his farm? He requires capital because implements and stock are wanted, and because he must have money, or some other property in hand which he converts into money, in order to pay the wages of his labourers; and although a farmer estimates his capital in money, he obtains the amount of this estimate by ascertaining the pecuniary value of various items of which his capital is composed. In making this calculation, he takes account of the value of his stock, his implements, and the amount of money which it is necessary for him to keep in hand in order to pay his wages, and to provide the outlay which is requisite for other purposes.

*Capital not  
all in ac-  
tual em-  
ployment.*

It has been just stated that the whole capital of any country is the sum of the wealth existing in any shape or form whatever which has been set aside with the object of being devoted to assist future production. Hence it is manifest that the whole capital of the country is not at any particular time actually employed. This may be readily explained by an easy illustration.



Let us consider some commodity such as wheat, which is produced in our own country, and to simplify the matter we will suppose that the wheat of one harvest is consumed by the time the next harvest is gathered in. Now it may be naturally asked, what portion of this wheat ought at any time to be regarded as constituting capital? Immediately the harvest is gathered in, the wheat is of course so much wealth, and at that time just so much of the wheat as each individual owner intends to employ productively is capital. But this affords no correct estimate of the quantity of this wealth which will be ultimately employed as capital. The intentions of the individual owners may change; he who to-day intends to devote to productive employment so much wealth as is represented by a certain quantity of wheat in his possession, may next day resolve to squander it on unproductive consumption, and therefore, to speak correctly, the amount of the capital of a country varies from day to day, on account of the shifting caprice of individuals. It has been supposed that the whole of this wheat will have been consumed when the next harvest arrives, and then the exact quantity of the wheat which has been employed as capital would of course be known, if the portion of it which had been devoted to productive purposes could be ascertained.

A difficulty may here very probably suggest itself, which it is very important should be cleared away. A prime necessary of life such as wheat is never to any large extent wasted or squandered luxuriously; the great bulk of it being always devoted to satisfy the most necessary wants of life. It may therefore be asked, Should not all the wheat which a country possesses be regarded as a portion of its capital, when it is consumed as usefully as any commodity can be? A prodigal farmer may sell his wheat, and squander the money which he obtains for it, but the wheat will not be wasted, and therefore it might be very plausibly urged that the individual owner of a commodity

*A difficulty stated: Is all the wheat in existence capital?*

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CH. IV.

like wheat does not prevent it being productively employed, or, in other words, has not the power of determining whether it shall or shall not form a portion of the capital of the country. We have thus gradually found our way to a difficulty. The subject of capital cannot be considered under too many aspects; it is here that the young student in political economy finds himself most beset with difficulty. He will never become familiar with the fundamental principles of capital by exhibiting them in the form of propositions; they had better be suggested to him by following out some illustration. An adequate grasp is never obtained of the physical principles of mechanics, until the student has solved problems for himself.

The case suggested is this. Suppose the farmers resolved to sell half their wheat, and spend the money upon their own enjoyments; the money for which one-half the wheat is exchanged would be thus employed unproductively. Ought this wheat to be regarded as capital? Yes—is the answer which will very probably be given. It is true that the money for which the wheat is sold is employed unproductively, but this will not in any degree prevent the wheat being devoted to useful purposes. The wheat will still be made into bread, and will be consumed in just the same manner as it would have been if the farmers devoted the money for which it was sold to productive purposes, instead of squandering it on their own enjoyments. But suppose the farmers had devoted this money for which the wheat was sold to productive purposes; by just that amount would the capital of the country be increased. The money for which the wheat is sold is not itself consumed; this money is devoted to purchase commodities, and if they are consumed unproductively, an amount of wealth equal in value to the quantity of wheat first exchanged is consumed unproductively, instead of being devoted to increase the capital of the country, and thus assist the future production

*That portion which is exchanged for luxuries is not capital.*

of wealth. Now our argument implies that when unproductive consumption is spoken of, a tacit assumption is made that the money for which the wheat has been sold is employed, in great part, to purchase luxuries. But luxuries, it may be said, naturally imply waste, and are not devoted to assist the production of wealth. Hence, all that portion of the wealth of a country which consists of luxuries can never be productively employed, and, therefore, can never be made to form a part of a nation's capital. It may, therefore, be asked, Can a farmer be said to diminish the capital of a country, if he does not waste his wheat, but simply sells it to others who will take good care to use it properly, and employs the purchase-money in buying luxuries for himself which never could be used as capital, since, if they were not consumed unproductively by him, they would be so by some other person, because it is assumed that the consumption of luxuries can render no assistance to the production of wealth? It might, therefore, appear that wealth is diverted from forming a part of the capital of the country rather by those who produce luxuries, than by those who consume them; it must, however, be borne in mind that the demand of the consumer, and not the arbitrary caprice of the producer, determines the particular commodities which are manufactured. Luxuries, and other articles which cannot be devoted to reproductive employment, would not be brought into the market if it were not for the demand of the consumer. Enough has now been said to establish the proposition that an individual increases the capital of the country, not by spending his wealth on his own enjoyments, but by devoting it to reproductive employment. This is only another corroboration of what has been already stated, namely, that capital is the result of saving. For when wealth is saved, it is not hoarded, but invested; it is then productively employed, and as a consequence at once assumes the functions of capital.

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CH. IV.

*A demand for commodities is not a demand for labour.*

The proposition just enunciated, that an individual diminishes the capital of a country by spending his wealth, and increases the capital of the country by saving it, will lead us to another equally important proposition, and one which is sometimes announced as a startling paradox. For we shall be able to deduce, from our previous remarks, that a demand for commodities is not a demand for labour, or, in other words, that he who spends his wealth upon his own indulgences gives no additional employment to the labourer; the labourers are benefited by those who save, and who are eagerly anxious to accumulate wealth for themselves. These opinions, however, are entirely opposed to popular notions. The spendthrift is half excused, and often receives the homage due to a popular favourite, because, although he injures himself, yet it is supposed that he benefits the community in general. The virtues of prudent saving meet with no such kindly reception; if there is national distress, the capitalists have first to bear the brunt of national indignation. We will endeavour to explain away such misconceptions.

We must revert to our original definition, that the capital of a country is that portion of its wealth which is appropriated to reproductive purposes. But if wealth is so appropriated, it must be employed in assisting those who produce wealth. But the producers of wealth are the labourers, therefore capital remunerates the labourers, or in other words, the capital of a country is the fund out of which the labourers are paid their wages; the greater, therefore, the capital is, the larger will be the fund which is to be distributed amongst the labourers. Returning to our previous illustration, we will consider two cases. In the first place, let it be supposed that a farmer sells a certain portion of his wheat, say one half, and spends the amount upon his own enjoyments. He afterwards ceases to do this, and converts the amount he previously spent

*This proposition illustrated by an example.*

into capital, employing it in paying labourers. In what manner will this change in the farmer's course of conduct affect the labourers? In the first case, the farmer may spend the money upon such enjoyments as luxurious living and expensive wearing apparel. Let one item of his extravagance be taken. Suppose it be 50*l.* paid to his tailor for expensive cloth. The manufacturer of this cloth has employed so many labourers, and if there was no demand for it, the labourers engaged in its manufacture would be thrown out of employment; and, therefore, it would appear that the purchaser of 50*l.* worth of cloth causes just the same demand for labour as if he had paid this 50*l.* to labourers whom he himself employed. But there is a further consideration. When the cloth is consumed, so much wealth is destroyed; the wearing of the cloth has given gratification to the purchaser, but has not in any way assisted the future production of wealth. So much wealth has been destroyed without any reproductive result. But if the 50*l.*, instead of being laid out in cloth, was paid directly to labourers, different results ensue, for then, after the 50*l.* has been consumed by the labourers, there will be something left; there will be the result of their industry, which will represent so much wealth. And thus the wealth of the country will be increased. But we have yet to examine whether any different consequences will ensue to the labourers themselves. It will probably be thought that the labourers, as a body, will be in the same position as they were before; and that the same amount of wages will be distributed amongst them, because since there is now not so great a demand for cloth, fewer labourers will be employed in that department of industry; and that the loss to labourers employed in making cloth will be compensated by the farmer employing more labourers in agriculture. This is, undoubtedly, true; but if there is less demand for cloth, less will be manufactured. The cloth manufacturers will restrict their

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business, they will have to employ less capital in it than they did before; they will, therefore, be able to spare a portion of their capital for other investments; nothing has occurred to make these manufacturers more extravagant, and therefore they will be anxious to seek some profitable employment for that portion of their capital which is now set free from their own business. This capital will still, therefore, be employed productively; but if it is employed productively, it must still continue to perform the functions of capital, or, in other words, must be devoted to pay the wages of labourers engaged in some productive employment. Hence a greater demand must be caused for labour if an individual, instead of purchasing commodities for his own enjoyments, employs the money to pay the wages of the labourers. The proposition that a demand for commodities is not a demand for labour, is a proposition which is perhaps more rarely understood than any other in the whole range of political economy. Let us, therefore, endeavour to exhibit its truth in a still stronger light. The truth of the proposition shall be tested by the most extreme case which even an opponent can suggest.

*A further  
 illustration.*

Let it be supposed that a person has a certain amount of property in the form of some useful commodity; that he sells a portion of it, 50*l.* worth, with which he purchases some useless luxury, such as lace. If it is correct that a demand for commodities is not a demand for labour, then the purchase of this lace ultimately does no more good to the labourers than would be done if the individual wantonly destroyed the property which has been sold in order to purchase the lace. If such a wanton destruction of property occurred, the demand for lace would be proportionately diminished, and, as we have before mentioned, the result of this diminished demand would be, that the lace manufacturer would employ less capital and less labour in his trade; but he would be anxious to make use of the

capital which was thus set free from his business; he would seek for it some profitable investment: it would therefore be not wasted, but continue as capital, or, in other words, would still be appropriated to pay the wages of labourers. Hence the capital of the country, and, therefore, the fund which is distributed amongst the labourers, is not in any way diminished if an individual should wantonly destroy so much wealth, instead of consuming it unproductively for his own gratification. It is therefore evident that demand for commodities is not demand for labour, and that, consequently, an individual increases the wealth of the country, and improves the condition of the labourer, not by spending, but by saving.

There still remains another case to be considered. We have shown, in the above example, that the owner of capital neither increases the wealth of the nation nor benefits the labourers if he spends his wealth unproductively upon his own enjoyments. But how will the wealth of the nation, and how will the condition of the labourers be affected, if an individual employs his wealth in paying the wages of unproductive labourers? Suppose that the 50*l.*, which in the above example purchased lace, was now devoted to paying labourers engaged in carrying out some useless work—such, for instance, as digging an artificial lake; this change in the mode of spending money would benefit the labourers, because by it the amount of money distributed amongst the labourers, or, in other words, the wage-fund, would be increased by 50*l.* As far as the labourers, therefore, are concerned, there is an important difference whether wealth is consumed unproductively or whether it is spent in maintaining unproductive labourers. The unproductive consumption of wealth benefits the labourers as little as if the wealth was wantonly destroyed. But when wealth is spent in paying labourers for doing unproductive work, then the labourers are, in the first instance, as much benefited as if the wealth

*Another case. Employment of unproductive labourers and unproductive consumption of wealth compared.*

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CH. IV.

was devoted to productive industry. This must be so, because the same amount is distributed amongst the labouring classes. But the ulterior consequences which result from the productive employment of capital are very different, for when capital is productively employed the wages which are consumed by the labourers cause a reproduction of wealth; therefore, in this case, the wealth of a nation is increased, and there is a greater fund from which future capital may be saved. Hence, if we summarise our remarks on this subject, it is evident that there are three cases :—

*General  
result of the  
discussion.*

1. A man may spend money on luxuries; then capital is consumed in simply giving him pleasure.

2. A man may spend capital on unproductive labour; then capital is consumed in simply giving food to labourers.

3. A man may spend capital on productive labour; then capital is not only reproduced, but also gives the same amount of support to the labourers as in the second case.

The propositions just established afford an instructive proof that a knowledge of even the first elementary chapters of political economy shows the futility of the reproaches which ignorance casts upon this science. It is stigmatised as encouraging selfishness; but the selfish man devotes his means to his own indulgences, and political economy proves that such an one cannot claim the excuse of benefiting the labourers by causing a demand for the products of their industry.

*These conclusions are in practice modified by the complexity of commercial transactions,*

The propositions of political economy are necessarily somewhat abstract, and cannot be rendered familiar to the reader without illustrations. It is important to make these illustrations appear as practical as possible; and, although there is nothing at all improbable in the cases we have above supposed, yet the affairs of commercial life are complicated by other considerations which we cannot conveniently take account of, until we have further advanced



into our subject. We have supposed the case of an individual who, having been accustomed to purchase 50*l.* worth of lace, ceases to buy the lace, in order to employ the money in paying the wages of labourers. But to this it may be objected that political economy is not concerned with a single farmer or a single manufacturer, but ought rather to investigate the economy of a nation. But the result cannot be altered if the transaction we have supposed occurred between a great number of farmers and manufacturers, instead of between single individuals. Again, it may be remarked that, when discussing the above example, it was stated that when individuals cease to buy lace, in order to employ more labourers, the lace manufacturers would, in consequence of this diminution in the demand for lace, restrict their business, and would employ less capital in it. But it may be said that we have omitted to consider the losses which must always occur, both to the manufacturers and to their operatives, when their particular branch of industry suffers a check. Upon this point, however, we will make an observation, *but are still valuable.* which should be carefully borne in mind throughout our illustrations. The results which are deduced from the principles of political economy do not come into immediate operation. These principles indicate and affirm tendencies to produce certain results, which will inevitably in time be realised, if not counteracted by other causes. Thus a diminution of demand, such as we have imagined, has recently occurred in the Coventry ribbon trade; and no doubt the ribbon manufacturers cannot immediately transfer their capital to other departments of industry, nor can their operatives immediately find an equally remunerative employment: but still, if the ribbon trade is to remain permanently crippled, the Coventry manufacturers will gradually transfer all their capital to other investments, and the Coventry operatives will be gradually drafted off to other employments. Such a transfer of capital and

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labour cannot, however, be made without some sacrifice. Machinery, as will be shown in our remarks upon fixed capital, is an important part of the capital of a country; and the machinery employed in a ribbon manufactory would be almost valueless if it was sold to be used for some other purpose. The ribbon weavers, too, would be much less valuable labourers, because their acquired skill would not be so efficient in a different kind of industry. We must proceed gradually to take account of all these and other more complicated considerations. At the commencement of our subject it is necessary to take the most simple cases; but even this elementary treatise will provide the student with the requisite data fully to solve economical problems of much complexity.

*Capital is frequently wasted or employed ineffectively.*

In the course of this chapter it has been frequently remarked that capital is the wealth which has been appropriated to assist future production. Wealth so appropriated consists of machinery, stock, implements, and a fund out of which the wages of the labourers are provided; but the capital of the country is not always employed at the greatest advantage, or, in other words, the capital of a country might always administer to the production of a greater quantity of wealth than is actually produced. Capital is wasted through want of skill; inferior machinery is frequently used; industrial enterprises, after having involved a heavy outlay, are often finally abandoned. Capital, from other reasons, too, never contributes all the assistance it might to the production of wealth. The wages of labourers paid out of capital are generally sufficient to provide something more than the necessaries of life. The worst paid classes of labourers probably spend some small portion of their wages in luxuries, the consumption of which does not assist, but perhaps rather interferes with, the efficiency of their labour. The advocates of Temperance profess to furnish abundant statistics upon this point. We are assured that the working-men of this country annually spend 3,000,000.

upon tobacco. If it can be proved that tobacco does not benefit, but injures both the body and the mind, then 3,000,000*l.* of the capital of the country, which in the first place is paid to the labourers, and then expended by them in tobacco, is, considered as capital, rendered completely nugatory; because the 3,000,000*l.* in no way assists the production of wealth. If, moreover, it is true that tobacco cannot be used without detriment, then this 3,000,000*l.* of capital not only does not assist, but actually is an obstacle to the production of wealth. But it will perhaps be said, although this sum of money spent upon tobacco does the labourer no good, yet it is not without its beneficial influence; the expenditure of so much money is good for trade, and thus the labourer receives an indirect advantage. The fallacy of such a supposition will be readily understood by recalling the proposition we have been so careful to explain, namely, that a demand for commodities is not a demand for labour. It is, however, necessary to be extremely cautious in expressing an opinion as to whether the consumption of a particular article in any way does the labourer good. The relations between chemistry and physiology are as yet by no means settled. The theory of food is most imperfectly understood. A chemical analysis may very possibly show that such an article as tea contains none of those ingredients which are commonly considered to nourish the human frame; and hence a rash and ignorant assertion is often made that tea is not a necessary of life, and that therefore a heavy tax upon tea is no hardship to the labourer; the tax is simply a salutary sumptuary law, because the consumption of tea ought rather to be discouraged than encouraged. But although tea may not nourish the body, yet it undoubtedly soothes the mind, and this is equally important; for without some such soothing influence, life would be almost intolerable, and even the body itself would be wasted by the weariness of the mind.

Enough has now been, perhaps, stated to establish the proposition that although industry is maintained by capital, yet that there is always in a country sufficient capital to support more industry, or, in other words, to administer to the production of a greater quantity of wealth than that which is actually produced.

*Fears of a 'glut' of capital are based upon misconception.*

Intimately connected with this portion of the subject of capital there is a very wide-spread misconception that there would be a glut of capital if it were increased beyond a certain point; in fact, that capital might be so augmented that no industry would be found upon which it could be employed. Therefore, a certain waste of capital is considered necessary in order to prevent such a glut. Now, it has been explicitly stated that capital is the result of saving, and therefore if capital is increased, the increase must be due to greater saving. Let it therefore be supposed that the rich spend much less upon luxuries, and resolve to employ labourers with the money thus saved. It may be imagined that if such saving were continued, our various industrial marts would soon be overstocked, and that warehouses would be filled with goods for which there was no demand. There are few even amongst political economists who do not sometimes write and speak as if they believed that the unproductive expenditure of the rich is required to give adequate employment to the poor. But if such an

*An increase of capital might accompany an increasing or a stationary state of population.*

increase of capital as that described should occur, two suppositions may be made: an increase of population proportionate to the increase of capital may occur; or, secondly, the population may remain the same as it was, before the increase of capital commenced.

The first case presents no difficulty; the increased capital would be required to support the increased population. But the second case must be carefully considered, and it at once suggests this difficulty: If all the labourers were previously fully employed, how could the increase of capital give additional employment to labourers?

A particular point, which may be keenly disputed in an abstract science, such as political economy, is frequently completely obscured in the ambiguities of general language; and, of this, the question under discussion affords a striking example. It therefore becomes very necessary, as a preliminary process, to attribute a distinct meaning to the above expression,—‘giving additional employment to the labourers.’ The augmentation in the capital of the country has been supposed to result from the diminished consumption of luxuries on the part of the rich. It is assumed that all the labourers were previously fully employed. But a new fund, which is now intended to be paid to the labourers, has arisen from the increased savings of the rich; where, therefore, are the labourers amongst whom this increased fund is to be distributed? Those labourers, it is true, who have manufactured the luxuries which the rich now no longer purchase, will be thrown out of employment. But the capital of the manufacturers of these luxuries will be now seeking fresh investments, and will be therefore sufficient to give employment either directly or indirectly to the same number of labourers as were previously maintained by it, and therefore the new capital created by the increased savings of the rich still apparently remains unemployed. But although the assumption has been made that all the labourers were previously fully employed, yet let us consider what this means. It must be interpreted thus: That all able-bodied labourers were able to find work, and that they received certain wages for a certain quantity of work. There can be no doubt but that the labourers would willingly receive more wages if they could be obtained. It is quite impossible that the wages can be increased unless the capital is increased; now, however, there is such an increase of capital, and therefore the wages of the labourers will rise. If the labourers were before supplied with all the necessaries of life, they in their turn will begin to consume more luxuries,

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*In either case the fears of a glut are imaginary.*

and the labour which before had produced luxuries for the rich is now available to meet this new demand on the part of the labourer. It may, however, be argued that if the capital continued in this way to increase, the labourers' wages would also be constantly increasing, and at length all their wants might be satisfied. When such a happy event was consummated, then the hours of toil would be shortened, and men would not be compelled to labour so ceaselessly as at the present time. Human beings are not endowed with an uncontrollable instinct for physical exertion; it has been beneficently ordered that the wants of life must be satisfied by physical labour, but civilisation has no nobler mission to fulfil than to diminish the labour which is required to satisfy the physical wants of life. Hence the vaunted progress of civilisation must appear delusive to that great majority of the human race who toil for hire, and who have not yet found that the hours of their toil have been lessened.

Generations after generations pass away whose minds remain undeveloped, and whose bodies have had to work with the constancy and the regularity of a machine. Political economy will assist us in understanding the means by which the labourer's toil is to be lightened. Let it not then be called a harsh or degrading science, for no study can elevate our conceptions with brighter anticipations for the future than one which will enable us to comprehend some of the requisites which will afford, to a greater number, that only true and most supreme happiness—the development of the human faculties to a harmonious and consistent whole.

*Capital must be consumed in order to fulfil its functions.*

Since capital is the result of saving, it is often erroneously considered that capital is wealth which is set aside with the object of not being spent; but this is a fundamental misconception, for capital cannot fulfil any of its functions except by being consumed. Thus, capital provides the fund from which the wages of labour are paid,

and these wages are, of course, consumed in ministering to the wants of the labourer, and in supplying him with all the various necessaries of life. If a man has so much wheat, it is wealth which may at any moment be employed as capital; but this wheat is not made capital by being hoarded; it becomes capital when it feeds the labourers, and it cannot feed the labourers unless it is consumed. These considerations apply to capital existing even in a more permanent form, such as machinery. All machines must in time gradually wear out; a steam-engine, durable as it may appear, is only capable of performing so much work; but a steam-engine is capital, because it assists the production of wealth, and therefore it only fulfils the functions of capital when it is in motion; but every hour that it is kept in motion contributes somewhat to its ultimate wearing out. It is therefore manifest that all the wealth of the country, in whatever form it may be, can only perform the functions of capital by being wholly or partially consumed. The capital of a country is constantly being consumed in order to produce more wealth, and therefore capital is maintained by perpetual reproduction, and not by hoarding and keeping wealth out of consumption.

The leading propositions with regard to capital have now been discussed, and they afford principles which will enable us to investigate economic problems of the greatest interest and importance. An endless variety of such problems bearing upon the subject of capital may be readily suggested, and the student should zealously apply himself to their solution. Let him not suppose that he is wasting time upon the mere rudiments of the science; he may rest assured that, if he fully comprehends the subject of capital, his future successful progress in the science is insured, and that he will become one of that very select few who can apply the principles of political economy even to those simple financial and social questions which are the topics of everyday discussion.

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*Practical  
application  
of these  
principles.*

*Effects of a  
war.*

It will be, perhaps, useful to our readers if we give **one** or two practical applications of the laws of capital which have been enunciated in this chapter. One such application is suggested by considering the rapidity with which a country recovers from the ravages of a disastrous war. This phenomenon was first fully elucidated by Dr. Chalmers. A conqueror overruns a country, and destroys every vestige of accumulated wealth which he can discover. A great portion of the food with which the labourers were to be fed is gone; machinery and other appliances with which industry is assisted are destroyed. The capital of the country appears to be almost lost, and when it is remembered that the future production of wealth depended upon this capital, it might be supposed that production would cease, and that the country must for years remain the same desolate waste. But, on the contrary, countries which have been thus ravaged and pillaged, have in a few years revived, and seemed to be as prosperous as before. The history of Athens and the French Wars in the Palatinate afford many striking examples of a rapid recovery from the devastation of war. The anomaly admits of a very simple explanation. It has been shown in this chapter that the capital which at any time exists in a country is always sufficient to administer to the production of a much greater amount of wealth than that which is produced; or, in other words, the production of wealth which actually takes place might be effected with the aid of much less capital than the amount which is applied. There, therefore, always exists a considerable excess of capital which might be wholly destroyed without necessarily impeding the production of wealth. For instance, every shilling of the labourer's wages which is expended upon anything but the mere necessaries of life might be destroyed without affecting the industrial efficiency of the labourer, and consequently without diminishing the future production of wealth. If, therefore, in a country ravaged



by war, there should be just enough food left for the labourers to live upon until the next harvest is gathered in, and if also they had the necessary agricultural implements, there is no reason why the country should not soon be restored to its former fertile and well cultivated appearance. But if the implements of agriculture were destroyed, cultivation could not proceed until they were replaced; and the after consequences of the war would be more permanently disastrous.

As a nation advances in commercial prosperity, a constantly increasing quantity of national wealth assumes a permanent and fixed form. The docks, the railways, our unsurpassed mercantile navy, the great manufactories of Lancashire and Yorkshire, with their machinery as costly as it is ingenious; these works, and not the food and clothing stored in our warehouses, are the striking evidences of England's marvellous commercial progress. If all the food was destroyed except just enough to prevent the people starving, England in one year might present an unchanged aspect of commercial prosperity; for if the food was not ruthlessly wasted it is stored for the purpose of being consumed. But if the fury of an invader should ever range unrestrained over these islands, and should destroy the wealth which exists in a permanent form, such as public works, machinery and buildings, then the disaster could not soon be repaired, and England would suffer for a far longer period than did poorer nations, conquered in more backward times. Hence war becomes more terribly disastrous to a nation as each year a greater proportion of her wealth is accumulated in a more permanent form. Let us hope, then, that commercial progress may carry with it guarantees for the permanence of peace. Of late years a feeling of false humanity has attempted to make war subserve the rights of private property. Life may be sacrificed with as much prodigality as ever. The foremost geniuses of this mechanical age devote their energies to

*Commercial progress increases the evils of war.*

perfect the weapons of death; but civilisation, it is said, demands that there should be no wanton destruction of property. No such attempt to palliate the material disasters of war ought to be encouraged; war will be rendered less frequent, if a whole nation is made to feel its terrible consequences, instead of concentrating all the horrors in the sacrifice of thousands of helpless victims who may be marshalled at the caprice of a despot. If any nation should ever threaten England with invasion, England ought to speak in unmistakable language that her vengeance should not be confined to a retributive slaughter of soldiers, but that she would destroy all the public works upon which the wealth of the nation mainly depended. This will give a practical check to vaunting ambition, and might rouse a nation to restrain the military designs of the most despotic ruler.

*Should wars be paid for by loans or increased taxation?*

This digression suggests a consideration of the much debated financial question, whether any extraordinary national expenditure, such as is caused by a war, ought to be defrayed by a loan or by increased taxation? England has resorted to loans, and a permanent record of this financial policy is afforded by a national debt, larger than the aggregate amount of the debts of all other European nations. Mr. Gladstone in his budget-speech of 1854 evoked the enthusiasm of the House of Commons by the declaration that the future financial policy of England was to be reversed. The expenses of the Russian War were to be defrayed entirely by increased taxation, and thus posterity would inherit the advantages of that contest, unencumbered with the penalties of augmented pecuniary burdens. The virtuous resolution of Parliament was not or could not be maintained, and the Russian War added 50,000,000*l.* to our permanent debt. It would be foreign to our immediate subject to discuss to what an extent the present generation is justified in burdening future generations; there can however be no doubt that the whole of the

money required for the Russian War might have been raised by taxation. England's capacity for taxation is extraordinarily great compared with that of other nations, and it has never in later years been severely tried. A loan may be obtained from two sources; it may be taken from the capital of the country, or it may be provided from increased savings. If capitalists consider that the terms offered by the Government afford an eligible investment, they may be induced to take some of the capital employed in various commercial undertakings, and lend it to the Government. If the Government spends the loan at home, the loan has not diminished the capital of the country; it has merely caused a portion of it to be diverted to other purposes. But although the capital of the country is not in the first place diminished, in all probability such a diminution will soon ensue. The Government will ordinarily spend the loan in warlike weapons. Cannon balls, gunpowder, and mortars are commodities which cannot be appropriated to assist the future production of wealth, labourers cannot be fed by them, and therefore when the loan is converted into such commodities it cannot form a portion of the capital of the country. If, however, the capital which has been contributed to the loan had remained with its original possessors, it would in the undertaking in which it was employed, in all probability, contribute to the production of some useful commodities which might afterwards be applied as capital. Upon such an hypothesis therefore, the capital of the country is diminished in consequence of the loan; the labourers will ultimately suffer, because since there is less capital there will be a smaller sum to be distributed amongst them.

As a second hypothesis, let it be supposed that the loan is obtained in the same manner, but is differently employed by the Government. Within the last few years large loans have been raised for the purpose of carrying out industrial works in India. By these loans railways have been made,

*Loans applied to public works.*

and irrigation works have been constructed on a stupendous scale. In this manner the loans have been devoted to purposes of great industrial usefulness, which will, in all probability, render more assistance to the future production of wealth than if the money had remained in the hands of those who lent it to the Government. A loan thus applied may be raised without any injury to the labourers, and may at the same time permanently enrich a country. A loan, however, is very rarely contributed entirely out of money which had previously been employed as capital. A portion of it will be generally provided from increased savings. All that is supplied from this source will manifestly serve to augment the capital of the country; in this manner a loan may encourage the accumulation of capital, or, in other words, may benefit the labouring classes. The employers would not share the advantages thus enjoyed by the labourers, because the Government, having become the employer of a larger number of labourers, the demand for labour would be increased, and other employers would have to give their labourers higher wages. It may be with reason urged that a nation cannot be impoverished by the unproductive expenditure of a loan which is provided out of increased savings, because, since savings are increased, it must be assumed that if the loan were not raised the money would not be applied as capital, but would be spent unproductively by individuals; and therefore it may be said, Why should the unproductive expenditure of a government impoverish a nation more than if the same amount of wealth was spent unproductively by individuals? In one sense, no doubt, a nation is not rendered poorer, as may be shown from the following considerations: Suppose, for instance, we wish to make an estimate of the whole wealth of the English nation. All the wealth possessed by Englishmen in the funds should be omitted from this estimate. If it were not so, the same wealth would be counted twice over. Suppose A has a mortgage of 10,000*l.* on B's estate. The

*Loans applied to unproductive purposes.*

mortgage is wealth to A ; but it is not a part of the nation's wealth, because the mortgage simply shows that B's estate is not entirely his own property, but that A has a share of it, the value of which share is equivalent to the amount of the mortgage. Similarly the fundholders have a mortgage upon the industry of the nation ; and if the fundholders were all English, and the nation repudiated its debt, the wealth of the country would not in the slightest degree be either decreased or augmented : a most unjust confiscation of property would be perpetrated, but there would have been no destruction of wealth ; for what the fundholders would lose the tax-payers would gain. The national debt, considered in this aspect, is a mortgage upon the industry of the nation ; and the creation of a mortgage cannot diminish the wealth of a nation unless the persons who own the mortgage should be foreigners, when, of course, a portion of the national wealth is as it were transferred to another country. These considerations show that if the raising of a loan encourages money to be saved, the loan might be spent in the most unproductive manner possible without in any way diminishing the national wealth. There is, however, a difference in the consequences which result when money is spent unproductively by individuals, and when the same money is subscribed to a loan, which loan is spent unproductively by Government. In the first case, where individuals spend the money unproductively, no one has to pay them anything for doing so ; but in the second case, where these individuals lend the money to the Government to be spent unproductively, the whole nation has annually to pay a certain penalty in consequence of this unproductive expenditure. The penalty paid is the interest received by the lenders of the loan.

In estimating the effects of a loan we have these general principles to guide us : The loss of the labourer is in proportion to the extent to which the loan encroaches upon *Effects of loans in general.*

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the capital of the country. A loan may increase the capital of a country either by encouraging greater savings, or by inducing capital to be subscribed to the loan from other countries. In this case the labourer may receive an immediate benefit, proportioned to the increase of capital caused by the loan. Indian railways have been constructed by loans subscribed almost entirely in England. It has been calculated that 11,000,000*l.* has been paid to the natives of India for their labour upon railways; and, since this amount was imported capital, the labouring population of India derive the same immediate advantage as if 11,000,000*l.* had been distributed in gratuities amongst them. If, then, a loan in any way causes the capital of the country to be increased, the labourers will receive immediate benefit, even if the loan is spent unproductively; on the contrary, the employers will, under the same circumstances, suffer a loss, because wages will rise as a consequence of the capital being increased. India affords a striking example of this; for the large sums of money raised in England, and spent within the last few years upon the public works of India, have caused the wages of the labourers in that country to rise in a very marked manner.

The ultimate effects of a loan to all classes depend entirely upon the manner in which the loan is spent. If it is spent unproductively, the whole nation will have to pay a permanent penalty for the extravagant expenditure. If it is devoted to works of industrial usefulness, which probably would not be carried out by private enterprise, then the nation may be enriched to an extent which it is difficult to calculate. Who can tell how much India has been enriched by her Ganges Canal and her Grand Trunk Road? These are some of the public works which will serve to remind posterity of the achievements of the greatest commercial company the world has ever seen.

In quoting warlike material as an example of an unpro-

ductive expenditure on the part of Government, it is intended to express no opinion adverse to military preparations. Vast sums have been, and will probably again be squandered in war; but there can be no greater impediment to the production and accumulation of wealth than a want of security from hostile attack; and therefore it is absolutely necessary, even for the interests of commerce, that the defences of the country should be adequately maintained.

Let us now examine what different consequences ensue if an increased expenditure is supplied by taxation instead of by loan. Increased taxation would be obtained in different ways in different countries. In our own country there are probably only two sources available for largely augmenting the revenue. These are the income-tax and an increase of the duties upon some commodities of general consumption, such as tea and sugar. Let it be supposed that recourse is had to both these expedients. An income-tax may be paid in two ways; it may be paid out of income, or it may be paid out of capital. Thus a manufacturer who is charged with 1,000*l.* additional income-tax, may pay the amount by increased saving, or, in other words, by diminishing his personal expenditure. If this is done, his capital is in no way affected, and therefore the labourers do not suffer; the important thing for them is that no encroachment should be made upon capital. But it will perhaps be said, that if the people who pay the increased income-tax are induced to retrench their expenditure, trade will suffer in consequence of their purchasing fewer commodities, and that the labourers will thus be injured because dull trade is always prejudicial to them. But here we must once more recall the important proposition, that demand for commodities is not demand for labour; if, therefore, the income-tax is paid from income and not out of capital, the labourers may derive a very decided advantage from increased taxation, because a portion of the money

*Effect of raising money by taxation instead of loan.*

*An income-tax, if paid out of income, does not injure labourers;*

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which is thus obtained by the Government is sure to be employed as capital, since it will be paid in wages to artizans, shipwrights, and other classes of labourers engaged by the Government. The advocates of a democratic extension of the suffrage not unfrequently urge, in its behalf, that the people would have a direct interest in checking a reckless expenditure, and they also urge that it is the interest of the rich in opposition to the poor to encourage heavy taxation. But the labourers will in every way be greatly profited by increased expenditure if the money is provided by an income-tax, which is sure to be partly supplied from increased economy, and which in this country it has never been proposed to levy upon the labouring population. If an income-tax is paid out of capital, the production of wealth is at once interfered with; but the labourers are only injured in proportion to the extent to which the Government spends it otherwise than in employing labourers at home. In a country so rich as England, even an income-tax of two shillings in the pound would probably in the main be paid out of income, and not out of capital. Such a tax, therefore, would not seriously interfere with the production of wealth, but would most materially encroach upon the means of enjoyment, of all who pay it. In the richest country, if an income-tax continues to be increased, it must at length cease to be chiefly paid out of income. Directly it encroaches upon the capital of the country, the tax becomes doubly burdensome and disastrous, the production of wealth will be gradually impeded, the position of the labourers must be rapidly deteriorated, and the finances of the country will be gradually brought into a most critical state. In a poor country, such as India, an income-tax is a much more hazardous expedient. India is poor because sufficient capital has not been applied to develop her great resources. The best opinions agree that an income-tax would in India be in part paid out of capital, and therefore

*if paid out  
of capital it  
injures the  
labourers.*



its imposition in that country could only be justified by extreme necessity.

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Unless, however, there should be a democratic extension of the suffrage unchecked by the proper restraints, increased taxation will always be raised in this country as it is now, partly by an income-tax, and partly by augmenting the duties imposed upon commodities of general consumption. During the Russian War the income-tax was raised from sevenpence to one-and-fourpence in the pound, and the duty upon tea from a shilling to one-and-fivepence per pound. No article, except bread, is in this country so universally consumed as tea; it is prized alike by the rich and the poor. Those who in old age drag out their lives on the miserable pittance provided by the parish, will stint themselves of bread and fuel rather than be unsoothed by their cup of tea. None of those consequences accompany a tax on tea, which may arise from a tax which in any way affects the capital of a country. But a tax on tea reaches every cottage in the land, and the poorer the individual is, the more, probably, is the tax felt. - If England were engaged in a very expensive war, and determined to pay the whole cost without the assistance of a loan, an income-tax would no doubt supply a great proportion of the increased revenue. When a commodity is taxed, its consumption is diminished; and there are even at the present time some commodities in this country from which a greater revenue could not be obtained by increasing the duties now levied upon them. Spirits, for instance, will not bear a heavier tax than the present one of ten shillings per gallon.

*Effect of  
taxes on  
commo-  
dities.*

We have now pointed out some of the effects which follow both from loans and from increased taxation, and there can be but little doubt that loans ought to be avoided as far as possible. A loan, however, is perfectly justifiable when it is necessary to resort to so high an income-tax that it must in great part be paid out of the capital of the country. In such a case the production of wealth is at

*Objection  
to loans,  
viz. that  
they tend to  
diminish  
capital ge-  
nerally,*

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once impeded. If we had to decide between a loan and taxation as a mere abstract question concerning the production of wealth, there would be little hesitation in deciding against the loan, because a loan would generally be paid more entirely out of capital. It is, however, impossible to frame a general maxim which will apply to every case. Political economy will supply the principles which will suffice for each case, as it may occur. Thus, if a war should break out in India, it would be extremely impolitic to defray its cost by a loan if the money for the loan was subscribed in India, because the loan would thus abstract so much capital from India, and, as we have before remarked, India not only requires all her own capital, but works of the greatest industrial importance cannot be carried out until more foreign capital is imported. An Indian statesman would, however, have good reasons to prefer the loan, if it could be raised in England, for the loan would be the means of bringing capital to India. As the loan is intended to support a war, a great portion of it would, no doubt, be spent unproductively in India; but a considerable sum would be applied as capital in paying the wages of various classes of labourers who are always called into active employment by military preparations. It is also quite possible that, in order to assist some of the operations of the campaign, roads might be improved and bridges built, and in this manner a warlike expenditure might cause works of permanent commercial utility to be constructed. As a consequence of this loan, the revenues of India would be charged with a certain annual payment, but such an annual charge might be paid out of income, or at any rate would not cause the same diminution in the capital of India, as if the loan had been in the first place entirely provided by Indian capitalists.

*but not invariably.*

*A general principle of taxation.*

These discussions upon the relative advantages and disadvantages of loans and taxation will show the importance of arranging a tax so that it should cause the least possible

Emintion of capital. It is, therefore, extremely impolitic to tax a raw material. Suppose it were determined to raise a certain sum by taxing cotton; a tax on cotton goods would be far preferable to a tax on raw cotton. If a manufacturer was obliged to pay 100*l.* upon a certain quantity of raw cotton, he would thus have to give to the Government 100*l.* which he intended to employ as capital, and therefore the tax would be entirely taken out of capital. But suppose the Government said, We will let you manufacture your cotton, and then you shall pay us the same amount, by levying a tax upon the manufactured goods. The result of the tax would be, that the price of cotton goods would rise, the manufacturers would be able to pay the tax out of the increased price obtained for their goods, and the tax would not, under these circumstances, in any degree diminish the capital of the manufacturers.

It will have been remarked, that every kind of wealth which in any way assists the production of wealth has been, in this chapter, described as capital. Capital, therefore, is not confined to the food which feeds the labourers, but includes machinery, buildings, and, in fact, every product due to man's labour which can be applied to assist his industry; but capital which is in the form of food does not perform its functions in the same manner as capital that is in the form of machinery: the one is termed circulating capital, the other fixed capital. This is a real distinction, from which many important consequences follow. Circulating capital is only used once in order to fulfil any particular purpose; fixed capital may continuously repeat the assistance which is lent to industry. A store of food fulfils the functions of capital when it feeds labourers, but in feeding the labourers it is consumed; it cannot repeat the service which it has rendered. But the same looms, set in motion by the same steam-engine, will continue to weave cotton cloth through a long succession of years.

*Circulating and fixed capital.*

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CH. IV.

The same ploughs till the land for many successive crops. The capital with which a road is made does not facilitate the transport of wealth for any limited period; but, if a slight sum is spent to keep the road in repair, it will permanently serve the same industrial purposes. The capital expended on the great irrigation works of India, may, through countless ages, fertilise the same tracts of land. Circulating capital, since it is destroyed by one use, must receive an immediate return; the application of fixed capital is rewarded by industrial advantages continued for a long period of time. A farmer expects that each successive crop will remunerate him for the wages he has paid during the current year. But if he purchases a steam thrashing machine, he does not expect that his outlay will be returned to him in one year; he hopes to use the machine for a great number of years, and thus he will be gradually repaid for his original outlay. As another example, raw material is circulating capital to a manufacturer; the raw cotton is only once woven into cloth; and the manufacturer, when he sells the cloth, is repaid for the sum which he has expended in the raw material. But the money which he has invested in fixed capital—such as the machinery used in his manufactory—is gradually returned to him. A portion of the difference in the value between raw cotton and the same cotton when woven into cloth correctly estimates the pecuniary value of the assistance rendered by the machinery in the manufacture of this cloth; and a repetition of this valuable assistance ultimately remunerates the manufacturer for the original cost of the machinery. When the capital which administers to the production of any wealth is entirely circulating, the amount of wealth produced must in value be at least equal to the capital employed; for since this capital, according to our hypothesis, is circulating, it is entirely consumed by one use, and therefore the particular industry could not be remunerative unless the value of the wealth produced was

somewhat more than sufficient to replace the capital consumed. All capital, as we have before said, is intended to be, either sooner or later, consumed: circulating capital is destroyed by once ministering to the production of wealth; but capital is maintained by reproduction. Hence, since circulating capital implies immediate consumption, circulating capital must also necessarily imply immediate reproduction. Fixed capital, however, may repeat for a long period the assistance it renders to production; fixed capital, therefore, is only gradually consumed, and the amount of wealth expended upon fixed capital is not immediately reproduced. The most important practical consequences follow these considerations. Let it be supposed that a considerable amount of capital, which has been previously employed as circulating capital, is converted into fixed capital; when employed as circulating capital it was at once reproduced, and therefore the wealth which this capital produces must at least be sufficient in amount to enable the capital to be re-created. But the same immediate reproduction of wealth does not take place if the capital is converted into fixed capital; and therefore there need not immediately be produced so large an amount of wealth as if the capital were consumed by a single use, and had, in consequence, to be at once reproduced. Now, labourers derive their wages from circulating capital; hence, if the circulating capital is diminished, their wages will temporarily fall. As an example, the construction of a railway may cause circulating to be converted into fixed capital. Suppose that 10,000,000*l.*, previously paid to agricultural labourers, is now paid to railway labourers: the agricultural labourers would consume their wages; but then their labour would at once produce something which would be again consumed, and which would be again employed as circulating capital. The railway labourers will be as usefully, or even more usefully, employed than the agricultural labourers. The

*Practical consequences of the distinction between fixed and circulating capital.*

BOOK I.  
CH. IV.

*A temporary injury may be inflicted upon labourers by the conversion of circulating into fixed capital,*

*especially in poor countries;*

nation is not made poorer by this transfer of capital from one industry to another; she has her railway instead of the commodities which were produced by the capital previously invested in agriculture. There is no diminution of national wealth; but there may be less wealth in the country available for consumption—a smaller fund, in fact, to distribute amongst the labourers, and therefore the labourers may temporarily suffer. The application of improved machinery and the construction of such works as railways will ultimately confer upon the labourers an advantage amply sufficient to compensate them for any temporary loss which they may suffer from the conversion of circulating into fixed capital. Railways and machinery have most powerfully stimulated the production of wealth, and a large amount of wealth has been produced by their aid which could never have been produced without them. Moreover, the capacity which exists in England for the accumulation of capital quickly repairs any encroachment that is made upon her circulating capital; and therefore it is doubtful whether the labourers in this country have been even temporarily injured by the extensive use of machinery, and by the rapid development of our railway system. Although the labourers have not been injured by this cause in England, yet the labourers of poorer and more backward countries might suffer seriously under similar circumstances. If the English Government constructed railways in India by loans subscribed for in that country, it would be reasonable to suppose that some of the capital so subscribed had previously been employed as circulating capital. An Indian farmer might say, The terms offered to me by the government are so good, that I shall get a better return for my money by lending it to the government than by employing it on my farm. The consequence would be, a smaller production of food; the circulating capital would be diminished, and therefore there would be a smaller fund to distribute amongst the

labourers. The injury to the Indian labourers would, however, only be temporary; the production of wealth would be so much assisted by the railway, that India would soon possess even a larger circulating capital than before.

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*but it will  
be only temporary.*

A rapid conversion of circulating into fixed capital may thus for a time very prejudicially affect the labourers. Their prejudice against machinery is not, therefore, altogether unfounded; they probably, however, would be as unable to give satisfactory reasons for their antipathy as those would who deride their ignorance. Mankind may reasonably expect much happiness from the perfection of mechanical appliances; but if posterity is to gain so much, it is not unreasonable that the poor should, if possible, receive some practical sympathy when these great prospective advantages are accompanied with temporary suffering to the labouring classes.

## CHAPTER V.

ON THE PRODUCTIVE POWER OF THE THREE REQUISITES  
OF PRODUCTION.BOOK I.  
CH. V.*Variations  
in the pro-  
ductive  
power**of land,**labour,*

**T**HE three requisites of production, labour, appropriate natural agents, and capital, have now been discussed. The subject of the production of wealth will not be complete without an investigation of some of the laws upon which depend the amount or degree of productiveness of each of these requisites. All the materials upon which labour and capital are employed, are produced either directly or indirectly from the land. Wool is not a product of the land like cotton and timber, but the sheep from which the wool is clipped are fed by food obtained from the land. Land, labour, and capital are, therefore, the three requisites of production. The most casual observer will have noticed that each of these varies greatly in productiveness at different times, and in different places. Some of the richest tracts of land in England were not long since an uncultivated morass; Cambridgeshire and Norfolk are now amongst the largest corn-producing counties, yet Cambridge was once the home of the bittern and snipe, and Norfolk was little better than a rabbit-warren. And at the present time England possesses land of every degree of fertility; the rich loam land of Sussex and the Lothians will let for 4*l.* an acre; the wild moors of Yorkshire, if given to a farmer rent free, would not pay to be cultivated. There is also the greatest difference in the efficiency of labour.



It has been calculated that an English mower will do as much work in a day as three Russian serfs, and the contractors for the French railways found that an English navy was worth two French labourers. Such differences in the value of labour mainly depend upon superior strength and stamina, but still greater differences arise from superior skill; many operations in the manufacture of commodities require, perhaps, a delicate touch or a quick dexterity which no amount of untrained labour could supply. Capital, directed by superior knowledge, *and capital.* may effect what before was impossible; mines are now worked which no amount of labour and capital, unaided by the steam-engine, could have drained; and the application of a hundred times as much labour and capital would not produce the cloth which is now woven by the spinning-jenny and the power-loom. These considerations may, perhaps, suggest the opinion that we shall be obliged to call in the assistance of every science in order to investigate the laws which determine the productiveness of land, labour, and capital. For it may be said, agricultural chemistry makes known the constituents upon which depend the fertility of the soil; the difference in the stamina and strength of English and Russian labourers must be elucidated by appealing to physiology, as well as to the laws of climate, race, and other sciences. Again, the efficiency of machinery must be explained by the principles of mechanics. It, therefore, manifestly becomes necessary to place some limitation upon the scope of political economy, unless it is intended to embrace a vast number of other sciences. Now, it will be remembered, that no accurate definition of political economy was attempted to be given at the commencement of this work. It is far better that the reader should have the definition evolved for him as the subject gradually progresses.

In the introductory chapter to this work, we described *A necessary limitation* political economy to be the science which investigates the

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*of our en-  
quiries into  
the cause of  
this varia-  
tion.*

laws that determine the production, the distribution, and the exchange of wealth; it was, however, at the same time stated that this was rather a general description than an accurate definition. It was not an accurate definition, for we already perceive that, even concerning the first branch of the subject, political economy does not investigate all the laws which concern the production of wealth; for if it did investigate those laws, chemistry, physiology, mathematics, and various other branches of knowledge, would form a part of the science of political economy. It will be necessary to place some limit upon our investigations; and the necessary limitation is provided by assuming that the facts which are acquired from other sciences are known, or at any rate are supposed to be true. Thus political economy assumes all that we can tell at the present time with regard to the fertility of the soil. It is not the business of political economy to decide whether chemistry can suggest any particular manure which will greatly increase the productiveness of the land; but if the land, by any such cause, is rendered more fertile, then political economy would trace the consequences of this increased fertility upon the production, the distribution, and the exchange of wealth. Again, it would be foreign to the subject of political economy to prove, by a physiological argument, the causes upon which the inferior strength of the French and Russian labourers depends; but political economy, assuming that this inferiority exists, without explaining its cause, or suggesting a remedy for its removal, traces the consequence of this inferiority upon the production, the distribution, and the exchange of wealth. We thus obtain the limitation required, and the following more accurate definition can now be given:—Political economy is the science which investigates the laws of the production, the distribution, and the exchange of wealth, so far as these laws depend upon the human mind.

Returning now to the immediate subject of this chapter; we have to consider the productiveness of land, labour, and capital, not as they depend on physical causes, but as they are determined by production on a large and small scale, by division of labour, by the accumulation of capital in joint-stock companies, and by various other such circumstances which we shall proceed to notice.

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CH. V.

The productiveness of land does not depend entirely upon its fertility; for the quantity of labour and capital which may be required to make the produce raised from the land available for consumption forms a very important element in estimating its productiveness. The rich alluvial plains of the Mississippi are almost unsurpassed in fertility; but a considerable portion of the wheat which is grown there is consumed in Europe; and the cost of carrying this wheat to the European markets is virtually so much deducted from the productiveness of the soil upon which the wheat was grown. When the valley of the Mississippi possesses population so dense as to consume all the wheat there grown, the land, although it may be not more fertile, will be more productive of wealth; for the wheat will no longer be wanting an utility, which, amongst others, gives it the character of wealth, namely, of being in the place where it is required to be consumed: an utility which cannot now be conferred upon it without considerable cost. Everything, therefore, which facilitates the transport of produce, increases the productiveness of land. A great, perhaps the greater portion of the most fertile land in the world, is entirely unproductive. Products might be raised from it which would be eminently serviceable to man, but various obstacles interpose which render these products unavailable for consumption. Primæval forests may grow the most valuable timber, but man never uses this timber; for although no price in the first place may be paid for the timber, yet the cost of carrying it to the place where it will be required exceeds its value.

*The productiveness of land.*

*It is affected by the facilities of transporting produce.*

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CH. V.

The increase of population may create a demand for a product, and thus make the land from which it is obtained more productive. The great natural pastures of Australia have for many years supported immense flocks of sheep. In England the carcase of a sheep is far more valuable than its wool; but the reverse was the case in Australia—the wool was valuable, the carcase was worthless. Wool is not a bulky commodity, and the cost of sending a fleece from Australia to England is comparatively trifling; but so great a quantity of meat was almost worthless to so sparse a population. The gold discoveries at once caused the population of Australia to be largely increased; the mutton which had been before wasted was now required; the sheep became much more valuable; and the pastures upon which the sheep graze thus become far more productive of wealth, although the fertility of these pastures has remained unchanged.

*The pro-  
ductiveness  
of labour.*

*It is af-  
fected by  
the fertility  
of land,*

If the productiveness of labour is estimated by the amount of wealth which is produced by a certain quantity of labour, then the productiveness of labour is partly the cause and partly the effect of the fertility of the land. Quantity of labour may be conveniently defined by the labour of a certain number of men working for a certain number of hours per day. The amount of wealth which is produced depends jointly upon the productiveness of land and the productiveness of the labour employed; but as remarks have already been made upon the productiveness of land, we shall now proceed to consider some of the causes upon which, under any assumed set of circumstances, depends the productiveness of labour.

*by national  
character,*

Energy and intelligence are two of the most valuable qualities which a labourer can possess. It does not, as has been previously observed, appertain to our subject to attempt a full explanation of the causes which determine differences of national character. The Irish labourer, for instance, does not possess that steadiness and dogged de-

termination which distinguish the English labourer. This inferiority in the Irish labourer is popularly attributed to his Celtic blood: but the Irish have no doubt been too poorly fed to be capable of sustained energy. If the English had for a few generations lived on the impoverishing diet which the Irish have used, the points of difference between the two races would undoubtedly be much less striking. The Irish have been badly fed and badly paid, because there has been little capital in the country. The principles of political economy, however, explain the means by which the capital of the country may be increased, and thus a remedy is suggested for improving the energy of the labourer.

*by the increase of capital,*

Labourers have generally been so imperfectly educated that the economical advantage of intelligence to the labourer has been, and is still, most inadequately appreciated. Almost every industrial operation will be better and more expeditiously effected by the intelligent workman. Even a simple process like ploughing will soon be effected by costly and complicated steam machinery, which cannot, without serious risk, be entrusted to the care of ignorant workmen. Education produces a most decided improvement in the moral character of the workman. If workmen are dishonest, the loss which is incurred is in no way represented by the amount of property which may be stolen; if reliance cannot be placed upon labourers, they must be superintended and watched, and thus their labour is rendered less productive, because a certain portion of the wealth which is produced has to be paid to overlookers and others who would not be required to watch the labourer if complete confidence could be reposed in him. The productiveness of labour depends upon a great variety of other personal qualities possessed by the labourer. Intemperance makes a labourer less able to do his work, and his labour is sure to be more irregular.

*and by the education of the labourers.*

*The productiveness of capital.*

The productiveness of capital may be estimated by the

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CH. V.

*It is af-  
fected by  
improve-  
ment of  
industrial  
processes ;*

amount of wealth which is produced by the application of a certain quantity of capital. Capital is of course capable of producing more wealth when it employs efficient labour and is applied to fertile land ; but there are certain circumstances which tend to make capital more productive, whether the land and labour are good or bad. Every improvement in any of the processes of industry makes capital more productive. Without the assistance of the steam-engine, the capital at the present time existing in the country would not suffice for the production of even a small portion of wealth which is now annually produced. Machinery causes a greater quantity of wealth to be created with the assistance of a smaller amount of labour and capital. But the productiveness of capital is popularly estimated according to a different standard ; for capital is conceived to be productive when the profits obtained by the capitalist are large. For instance, a farmer might say, It is true that in consequence of the advance in agricultural science a great deal more produce is grown upon a farm now than a few years since ; but the rents which the farmers pay have increased ; and, therefore, the profits of the farmer are not larger now than formerly. His capital, therefore, gives him no greater return, and he might for these reasons consider that the productiveness of capital had not been increased. This, no doubt, might be the case, as far as the farmer himself was concerned ; but the productiveness of capital depends upon the amount of wealth produced, and not upon the particular manner in which this wealth may be distributed amongst the different parties who have a claim to be remunerated. The laws which determine the relative value of the remuneration received by landlords, capitalists, and labourers, will be explained in those chapters which treat of the distribution of wealth.

*by every-  
thing which*

Everything which tends to economise labour makes capital also more productive. Suppose the labourers on a

farm have to be overlooked; a farmer who has twenty labourers might consequently be compelled to have a bailiff, in order to see that the labourers do not shirk their work. The bailiff will be better paid than the ordinary labourer. The bailiff, we will suppose, is paid a pound per week, the ordinary labourer nine shillings. The bailiff thus receives ten per cent. of the whole wages paid by the farmer. If the labourers should be so much improved by education or by any other means that they would work equally well without being overlooked, the services of the bailiff might be dispensed with, and his wages would be saved to the farmer, who would now pay one-tenth less in wages than before. The capital of the farmer might therefore be diminished, and thus capital would be rendered more productive, because the same quantity of produce would now be raised with the outlay of a smaller capital. The case here supposed may perhaps be some day practically realised; as the labourer becomes improved by education, he will no doubt require less watching. Hitherto, the great social and economic importance of securing the greatest efficiency of labour, by giving the labourer some pecuniary interest in the work in which he is employed, has been most imperfectly understood. The relations between employers and employed will never become satisfactory until they are more united by the bonds of mutual interest. Too many of our labourers pass a life of hopeless drudgery; they in no way share their master's prosperity. In some of the succeeding chapters of this work, the great advantages of co-partnership and cooperation will be shown; for it will be explained that under such systems not only has the labourer been socially and morally improved, but capital and labour have in this way been rendered more productive, by calling forth the highest and most skilled efforts of the labourer. Improved relations between employers and employed might render unnecessary the present large outlay upon wages of superintendence.

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tends to  
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labour.

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CH. V.

*Division of  
labour in-  
creases its  
efficiency,*

We have as yet in this chapter alluded only to the general causes on which the productiveness of land, labour, and capital depend. We will now consider some of the more special means by which the efficiency of the three agents of production may be increased. As a first example we will refer to the striking illustrations employed by Adam Smith, which have made us all familiar with the advantages derived from the division of labour. A pin passes through about eighteen processes. The metal has to be drawn into wire, the wire has to be cut a proper length, the end sharpened, the head must be made and fastened to the pin, the pin must be burnished and then properly packed. The most skilled workman could not make more than twenty pins per day if he had himself to attend to all the processes through which the pin passes. But when the labour of pin-making is divided, the various processes being performed by different workmen, ten workmen will make 50,000 pins in a day. Without division of labour the ten workmen would only make 200 pins per day, and thus it would appear that in this case a proper division of labour increases its productiveness more than two hundred fold. Other examples, even more striking than the one just quoted, might be readily selected. M. Say says that, in the manufacture of playing cards, there are seventy-two distinct operations. When these operations are appropriated to different workmen, 15,500 cards have been made in a day by thirty workmen; but if a single workman had to perform all the operations himself, he would not make more than one or two cards per day. The increased efficiency which is thus conferred upon labour is, according to Adam Smith, due to three causes:

*for three  
reasons.*

1. The increase of dexterity in every particular workman.
2. The saving of the time which is commonly lost in passing from one species of work to another.
3. The invention of a great number of machines which



facilitate and abridge labour, and enable one man to do the work of many.

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The greatest influence no doubt is produced by the first of these causes, namely, the increase of dexterity of the workman. The effect of continuous practice in performing both mental and physical operations is most strikingly exhibited in the increased quickness obtained. By practice the eye and hand may learn to work in perfect unison, and the hand and eye obey with intuitive quickness the behests of the human will. The glass-blower appears to give a casual glance at a decanter, wishing to make one like it. He places some molten glass upon his blow-pipe, and after a few minutes of blowing and twisting a decanter is made, and between it and its model the nicest eye can detect no difference in size or shape; yet science can scarcely analyse or explain the marvels of this extraordinary handiwork. No rule but the eye has been employed to measure, the eye looks at the decanter, and the hand is thus directed. The shape of the decanter is produced by a combination of different forces, which the most refined analysis of the mathematician could scarcely investigate; there is the force of expansion caused by the blowing, and centrifugal and other forces are brought into action by the twirling and twisting. Many of the operations of industry need a dexterity which can only be acquired in childhood; the pliant fingers of youth must, as it were, be moulded to the work. When, therefore, the distinct operations of any industry are performed by different workmen, then each of these operations may become, as it were, a separate trade, for which men may be separately trained. If all the processes of pin-making were performed by one man, he would not have sufficient practice to acquire the requisite dexterity in any single operation, and therefore, if there was no division of labour in pin-making, all the labour employed must be, comparatively speaking, unskilled, and consequently very inefficient. The precision and quickness

*The dexterity of the workman is increased.*

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CH. V.

acquired by practice are not in any way confined to the mechanical operations of trade. What can be more extraordinary than the precision and quickness of the accomplished and practised musician? If the theory of violin-playing is explained, it seems to require a skill beyond the reach of man. The fingers appear to move with careless rapidity over the strings, yet the accuracy of each note depends upon the string being touched with the strictest correctness at some particular point.

Another advantage results from the dexterity of the superior workman, for he will use all the materials employed with the greatest possible economy; nothing is wasted by his blunders or mistakes.

*The time of passing from one operation to another is saved;*

Later writers on political economy, and amongst them in particular, Mr. Mill, consider that too much importance has been attributed to the second of the three causes which, according to Adam Smith, explain the increased efficiency of labour when the distinct operations of industry are properly apportioned amongst the workmen employed. A great deal of time is undoubtedly wasted if a workman has often to pass from one species of work to another, and this waste is of course obviated when a labourer can steadily keep throughout the day at the same kind of work. But Adam Smith exaggerates the nature and the amount of the advantages which may be thus secured, and omits to notice some counterbalancing disadvantages which may very possibly occur. Adam Smith says, 'A man commonly saunters a little in turning his hand from one employment to another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go to it, and for some time he rather trifles than applies to good purpose. The habit of sauntering and of indolent careless application which is naturally or rather necessarily acquired by every country workman, who is obliged to change his work and his tools every half-hour, and to apply his hand in twenty different

*although the advantage of this has been exaggerated.*

ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions.' There is nothing in this passage which is absolutely incorrect; it is, however, truth overstated. Each of the circumstances mentioned by Adam Smith produces some of the influence he describes; but his remarks would seem to prove that all whose employments are various must be slothful and indolent labourers, but the reverse is often the case; labourers frequently become quicker and more intelligent when the monotony of their employment is relieved by some variety. Waiters in large establishments are proverbially quick in their movements, and yet before they finish one thing they are often called upon to do a dozen different things. Gardeners are generally extremely intelligent, and yet there is the most constant variation in their employments. Before machinery was so largely used in agriculture as it is at the present time, the work of the agricultural labourer was far more monotonous. There are many labourers still living, who during twenty years of their life spent ten hours a day during ten months of the year in thrashing with the flail. Such a labourer might perhaps be somewhat stronger as a thrasher, but he passed his life as a machine, and it was impossible that an active intelligence should be preserved through such an ordeal.

The third advantage which arises from the division of labour as enumerated by Adam Smith is, 'the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.' *The invention of machines is perhaps facilitated;*

There is some ambiguity in Adam Smith's conception of the causes which influence the invention of such machines. Returning to our original example, each of the workmen employed in pin-making has his attention concentrated upon some distinct operation of the manufacture, and it is therefore maintained that he will be more likely to suggest some improvement in the particular operation in which he

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CH. V.

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labour.*

is constantly engaged, than would another workman whose attention should be distracted upon a great number of the processes of pin-making. The supposition may be verified by some striking instances. The boy whose only employment consisted in opening and shutting the valve of a steam-engine invented a self-acting apparatus, which had not suggested itself to Watt and other accomplished mechanics. The spinning-jenny and the mule were invented by working men; but there is no general principle which regulates the invention of machines of industrial usefulness; many most important mechanical improvements have been suggested by those who perhaps for the first time may have watched the operations of a particular industry. Novelty has often been the prompter of an invention, and improvements in machinery have often, as it were, been forced upon a trade. The practical advantage of the steam thrashing machine was proved long before the farmers could be generally induced to use it. Routine has often so dulled the minds of those who are employed in some special industrial operation, that they are reluctant to understand that any improvement in the processes of a particular industry is required.

Although division of labour may not be so entirely the cause of mechanical inventions as is sometimes supposed, yet there can be no doubt that a mechanical invention almost always induces a greater division of labour. When a machine is at work there are various operations performed by it which must be separately attended to. The machinery employed in a cotton-mill regulates the extent to which the division of labour is carried: for every process through which the cotton passes, from the time it is cleaned until it is woven into cloth, must be separately attended to, and thus, as it were, division of labour is enforced by the application of machinery. The introduction of new machinery may necessitate a much greater division of labour. Boat-building has not hitherto required

any great division of labour. A most ingenious machine, however, has been lately invented by an American, Mr. Nathan Thompson, by which a boat may be completely built in a few hours. If boats are thus built, the nature of the machine will exactly determine to what extent division of labour will be henceforth practised in boat-building, for the distinct operations performed by the machine must be attended to by a certain number of workmen.

Mr. Babbage has pointed out a most important advantage resulting from the division of labour which was altogether omitted by Adam Smith. Our former example will most clearly illustrate this advantage. The labourers who are employed in the various operations in pin-making receive wages which vary greatly. Boys can fasten on the heads of the pins with as much facility as men; girls can sort and pack the pins with great rapidity. Some of the other operations of pin-making, such as drawing the wire and pointing the ends, are performed by highly trained and very skilled labourers, and consequently the remuneration received varies from fourpence-halfpenny to four shillings per day; and in other branches of industry there are even greater differences than these. Mr. Babbage states that the various parts of which a watch is composed employ a hundred distinct trades, and the skill required in some of these trades is much greater than in others. A watch-case is, comparatively speaking, a simple article to make, whilst on the other hand some of the parts on which the accuracy of a chronometer depends must be so delicately adjusted that only very few workmen ever acquire the refined skill which is needed. These workmen therefore possess a virtual monopoly, and can obtain wages far exceeding any which are usually paid. If there was no division of labour in pin-making, each workman who made the pins must possess the skill which is required for each of the operations. He must be able to sharpen the pins, and the labour of a man who can sharpen pins is, as we have seen,

*Another advantage of division of labour pointed out by Mr. Babbage, viz. classification of labourers.*

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CH. V.

*Economic  
advantage  
thus ob-  
tained.*

worth four shillings per day. Without division of labour the workman cannot spend his whole time in sharpening the ends of pins; he will have to devote a portion of his time to fastening on the heads of pins, and is then doing work which is worth only fourpence per day, thus incurring the most serious waste. A workman would be thus compelled to produce what was worth only fourpence per day when his labour might produce what was worth six shillings per day. Mr. Babbage has attempted to form some estimate of the loss which would be thus incurred, for he has calculated 'that even supposing a workman could make a pound of pins in the same time in which ten workmen combining their labour can make ten pounds, they would cost in making three times and three-quarters as much as they now do by means of the division of labour.' A still greater loss would be incurred if the mechanician upon whose skill the accuracy of a chronometer depends had to waste his time, and perhaps destroy the delicacy of his touch, upon some of the rougher work by which parts of the watch may be made. Labour is most efficient in the production of wealth when each individual can be employed upon work which is best suited to the skill and physical strength which he may possess. The perfection of modern manufacturing industry makes such a minute division of labour possible, that the labour which is performed can be so apportioned as to suit the capacity of each individual workman.

*The divi-  
sion of la-  
bour is  
limited by  
the demand  
for the com-  
modities  
produced.*

It has been often remarked that the demand for any particular commodity places a practical limit upon the extent to which division of labour in its manufacture can be carried. There are in this country few commodities in such a position. But to take a hypothetical case; let it be supposed that a pin manufactory is established in a new colony, whose population is small. If there is such a division of labour that ten men are employed in the manufactory, there would be made, as has been before stated, fifty

thousand pins in the course of a year.<sup>†\*</sup> The colony might only have a demand for half of this number; and hence, if we suppose, for the sake of simplicity, that the colony has no export trade, there will be more pins made than are required. The pin manufactory might be closed during a portion of the year, in order that a smaller number of pins might be made. But in order to avoid the loss which is always incurred when a trade is carried on at intervals, the pin manufacturer would probably find it more to his advantage to employ a smaller number of men. If only five were now employed, there would not be so great a division of labour, and the labour of the five workmen would not be so efficient, for the number of pins now made in the course of the year would fall far short of one-half of the number previously made, although only double the quantity of labour was then employed. In England there are few things which are manufactured at an increased cost in consequence of the limited demand existing for them. If the stereoscope were only used as formerly for scientific purposes, and employed, for example, like many other optical instruments, by professors to illustrate the laws of optica, a stereoscope would be far more expensive than it is now. The few which would then be purchased in the course of a year would be made, speaking comparatively, without any division of labour; it would not be worth while specially to apply any machinery to the construction of stereoscopes. But the stereoscopes have now become a drawing-room toy, and tens of thousands are probably made every year. The price of stereoscopes has consequently been greatly reduced; so many are now manufactured, that workmen may be employed entirely in constructing them; and each part in a stereoscope may, like the various parts of a pin, be separately manufactured. All the advantages of division of labour can in this manner be secured; the dexterity of the workman is increased; machines, too, will be probably invented to specially

\* See note at the end of the book.

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facilitate some of the operations in the construction of the stereoscope, and these various operations can now be apportioned amongst workmen according to their skill and capacity. The practical result of this is strikingly exemplified in the fact that a stereoscope which now can be purchased for three shillings could not, a few years since, be obtained for less than a pound.

*Combina-  
tion of la-  
bour is as  
necessary  
as division  
of labour.*

The efficiency of labour as an agent of production depends as much upon the combination or cooperation of labour as upon its division. Labour may be combined in two different ways, and these have been described by Mr. Wakefield as simple and complex cooperation. A combination of several workmen to do the same thing is termed by Mr. Wakefield simple cooperation; and its importance can be readily illustrated. Work has often to be done which requires the strength of a great number of men; a weight may have to be lifted which could not be lifted by any one man. Without such a cooperation of labour none of the works which mark the civilisation of a country could have been accomplished; for unless labourers united their strength and skill, bridges could not be built, railways could not be made, mines could not be dug, and buildings could not be erected. The assistance which labourers engaged in one employment lend to those in another was described by Mr. Wakefield as the complex cooperation of labour. He was the first who adequately explained the most important considerations which arise from such a combination of labour. Political economists, guided by the example of Adam Smith, had previously almost entirely confined their attention to a very subsidiary branch of the subject, namely, the division of labour. We have already indirectly remarked upon the great extent to which different employments combine to assist each other. The manufacture of cotton cloth was mentioned as an example, to show how various are the different classes of labourers who assist in the production of even a simple commodity. We were led

*Case of the  
manufac-  
ture of  
cotton cloth.*



into endless ramifications in attempting to trace the different kinds of labour, either directly or indirectly brought into requisition, from the time that the cotton seed is planted in the swamps of Georgia until the cloth is woven in the looms of Manchester. There are distinct sets of labourers employed in tilling the cotton fields, in carrying the cotton to the port, in navigating the vessel in which it is shipped, in unloading the cotton at Liverpool, and then in transporting it to the mills of Manchester. All these different classes of labourers have been directly engaged in bringing the cotton to the place where it is wanted by the manufacturer. It would be vain to attempt a complete enumeration of all the different labourers who have indirectly assisted in bringing the cotton to market. There are the shipwrights who have built the ships, the labourers who have constructed the roads along which the cotton is carried, and the artizans who have made the tools with which the cotton fields are cultivated.

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There is, as it were, a tacit compact between each individual and society in general, that the commodities which he consumes will be produced for him by other classes of labourers. If there was not confidence that such a compact would be realised, society would return to its primitive type; for each man would have to live on his own plot of land, and every commodity which he consumed would have to be produced by himself. If this is done in any country to a large extent, the country must be poor and backward. Mr. Wakefield pointed out the important bearing of such considerations upon colonisation. The English Government had frequently encouraged a system of colonisation which tended to impoverish a colony, by impeding this complex cooperation of labour. In order to stimulate emigration, each family obtained from the government a certain area of land in fee-simple, and thus a new colony was dotted over with the isolated settlements of a great number of distinct families, who lived so widely scattered that they

*Bearing of  
the prin-  
ciple of  
combina-  
tion of la-  
bour upon  
colonisa-  
tion.*

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could hold but slight intercourse with each other. Each family had, therefore, to produce for itself almost everything it required. Under these circumstances there could be little commerce or trade, and the country necessarily remained in almost a stationary condition. The people in one sense were not poor; for the virgin fertility of the soil supplied them abundantly with the ordinary necessaries of life; but there was an almost complete absence of cooperation of labour. One of these families might possess a superfluity of food: there might be some commodity which, in a particular situation, could be easily produced, yet it could not be exchanged for some other commodity which a family might particularly want, and which it might, perhaps, fail to obtain, even by the application of the greatest amount of labour. A colony in this condition derives scarcely any benefit from such great natural advantages as a genial climate, great mineral resources, and vast tracts of fertile land, as yet untilled and unappropriated. Therefore, Mr. Wakefield emphatically insists that a government, when establishing a new colony, ought not to grant to emigrants settlements of land, far distant, and widely scattered, without at the same time taking steps to encourage the growth of a town population. The settlements which are granted by the government ought to be concentrated as much as possible, and should, in the first place, be not remote from the towns. There will then at once arise a cooperation between the industry of the town and the industry of the country. The industry of the town will supply the inhabitants of the country with the commodities which they found most difficult to obtain, and the town population will have an active demand for the food and other natural products which in the country can be raised in such plentiful abundance. The efficiency of labour will thus be greatly increased; for, with such an interchange of commodities, a family which could previously do little more than supply itself with food from a tract of land, can now

not only obtain, with the same labour, all the food it requires, but can also purchase from the town population articles of utility and luxury before unattainable. Such a colony will rapidly advance in wealth; roads will be made, and other industrial appliances will be carried out which will powerfully stimulate the rising commerce.

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CH. V.

It was at first supposed that the gold discoveries in Australia would cripple its agriculture; labour would be drawn from the farm to the gold mine; the wages of agricultural labourers would greatly increase; and under such difficulties agriculture must decline. But although this did in the first instance take place, yet agriculture speedily recovered in Australia, and has within the last few years rapidly advanced. The reason is that the gold discoveries caused the town population to be largely and suddenly increased, and the food which such a town population required was supplied from the agricultural districts. Those who sold the food could purchase, in return, all the products which the commerce of Europe provides; and Victoria has, in a few years, advanced from an aggregation of isolated settlements to the position of a prosperous country, with all the appliances of the oldest and most thriving commercial community. The large yield of gold within the last ten years is generally considered to be the source of the increased wealth of Australia. The gold may have been the primary stimulus of her prosperity; but the gold which has been produced would most inadequately represent the extent to which her wealth has been augmented. Not only has all her labour, whether agricultural or not, been rendered more efficient by the increased cooperation of labour which is now practised there, in consequence of the growth of the town population, but even her land has been rendered far more productive of wealth, because, at an earlier period, much of the produce which was obtained from it was not required, and, therefore, could not be accounted as wealth.

*This principle exemplified in Australia.*

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CH. V.

*Combina-  
tion of la-  
bour re-  
quires good  
means of  
communi-  
cation.*

There cannot be any extensive cooperation of labour between one employment and another, or between one district and another, unless the means of communication are good. Nothing, probably, has more contributed to perpetuate the poverty and backwardness of India than the want of good roads. There, one district can scarcely lend any assistance to another; an interchange of commodities, which would be advantageous to every party, is often prevented by the want of a road. During the terrible famine which ravaged the North-West Provinces, in the year 1860, wheat, which was in one district at the famine price of four rupees per maund of 83 lbs., was selling in adjoining districts at less than two rupees per maund. As long as such occurrences can take place, India must continue poor, her resources must remain imperfectly developed, and her labour must be comparatively inefficient. A village community virtually isolated from the rest of India cannot now raise that produce for which their land is best adapted, but must cultivate it with a view of supplying themselves with the first necessities of life. Manchester would, no doubt, annually purchase of India many million pounds' worth of cotton; but cotton will not be produced on any large scale until the people of India feel that if they grow cotton they will be able to exchange it for food. This confidence they cannot have while the roads of India are in such a state that food, which is in abundance in one district, cannot be transported a few miles to alleviate the sufferings of a starving population.

*The various  
functions  
of capital  
illustrate  
the same  
principle.*

The remarks which have been made to illustrate the functions of capital, afford striking examples of the complex cooperation of labour. An individual may save the fund which forms his capital from a great variety of incomes. The wealth which he has thus saved, he will probably embark in a great number of different investments, and in this way assist the labour of those engaged in the production of various kinds of wealth. Part of his capital will pro-

bably be devoted to the trade in which he is engaged, and he will perhaps deposit the remainder with his banker, by whom it would be lent to numerous traders to support them in their business. All commerce, in fact, forcibly exemplifies the cooperation of labour, not only between different employments, but between different countries. England gathers wealth from every quarter of the world, but at the same time she equally enriches the countries which whom she trades. It is England's demand that has stimulated the industry of so many countries.

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In an earlier part of this chapter, we considered the increased efficiency given to labour, when the distinct operations of any industry are performed by separate sets of workmen. In this case, workmen who are differently employed combine to assist each other in the production of the same commodity, and hence division of labour is an instance of the complex cooperation of labour. We have therefore departed from scientific accuracy in our arrangement of this chapter, and, partly in deference to popular opinion, have given precedence in our remarks to a discussion of the advantages of division of labour. Political economists following in the steps of Adam Smith have restricted the subject to the division of labour in its narrow sense. The reason of this may perhaps be, that the illustrations used by Adam Smith have made the division of labour one of the most popular parts of political economy; and thus its importance, compared with other portions of the subject, has been greatly exaggerated.

*Arrangement of the subject.*

## CHAPTER VI.

## PRODUCTION ON A LARGE AND SMALL SCALE.

BOOK I.  
CH. VI.

**I**F we had not feared that the last chapter was becoming too long, we should not have placed the subject we here propose to discuss in a separate chapter, because the carrying out of production on a large and small scale exerts a very powerful effect upon the productive powers both of land, labour, and capital.

*Comparative advantages of production on a large and small scale.*

The comparative advantages of production on a large, and production on a small scale, depend upon conditions which may vary greatly at different times, and in different employments. Every extension of machinery no doubt tends to give an advantage to production on a large scale. In the days of hand-loom weavers, little would have been gained by gathering them together into large buildings, such as the mills of Manchester. Each hand-loom weaver worked for himself; he needed not the assistance of others, and therefore there was no reason why he should not work in his own cottage. But the introduction of machinery has divided the work which was previously done by the hand-loom weaver, into a great number of distinct operations; and in this way machinery renders production on a large scale absolutely necessary. But to what extent it is advantageous to increase the scale of production, whether it is more profitable to erect a mill containing 10,000 spindles, or two mills containing 5,000 each, will be most correctly determined by those engaged in the trade. The comparative economy of working large and small mills is

sure to be quickly ascertained by the manufacturers themselves; there can, however, be no doubt that a small manufactory will have little chance of competing with a large one, if the small manufactory is not large enough for the efficient working of the most complete machinery used in the trade. Again, a small manufactory cannot compete with a large one, if in the one there is a less complete division of labour than in the other. A pin manufactory which employed ten men would produce pins at a much smaller cost than a manufactory in which only five men were employed. The labour of superintendence generally forms a comparatively larger item in small concerns than in large ones; for instance, each room in a cotton mill may require an overlooker, whether a hundred men are working in the room, or two hundred. A steam-engine must be constantly watched by an engineer, whether the engine is fifty-horse power, or a hundred-horse power; but all such questions concerning the greater or less economy of business arrangements will ultimately be decided by practical experience. There is at the present time a very decided tendency to increase the scale of production, and this tendency is particularly shown in those vast manufactories and warehouses which exemplify the wealth and energy of Lancashire and Yorkshire; and hence we must conclude, that production on a large scale, especially in the manufacturing districts, is rapidly becoming more advantageous. In fact, we have ascertained that a cotton mill containing 10,000 throstle spindles can be worked with a capital of 20,000*l.*, whereas a mill with 5,000 spindles requires a capital of not less than 11,000*l.*

*Advantages of large manufactories.*

It was remarked in the last chapter that the extent of the demand places a limit upon the division of labour. But the extent of the demand influences in a much more decided manner the scale in which the production of any commodity can be carried on. A very serious loss would be incurred if the demand for any commodity was not

*The scale of manufacturing operations is limited by the demand.*

sufficient to take off all that might be produced by the machinery and plant which may have been erected for its manufacture. Machinery when unemployed is capital lying idle, and the workmen when thrown out of employment could only be kept together by paying them some portion of their wages. This again would be capital wasted, and if the labourers were not thus kept together, when work was resumed new and untrained hands would have to be employed. Machinery also, if kept idle, frequently suffers great injury. The fluctuation in the demand, when it is small, is comparatively much greater than when the demand is large.

*Production on a small scale may maintain itself, though at a disadvantage.*

Even if production on a large scale is very advantageous, production on a small scale may still be very much practised. Let us again use our previous example, and suppose that a cotton mill containing 20,000 spindles can be worked at a much cheaper rate than one containing 5,000; but a capital of 40,000*l.* may perhaps be required to work a mill with 20,000 spindles, whereas a capital not much exceeding 11,000*l.* would probably suffice for a mill with 5,000 spindles. The number of individuals who possess a capital of 40,000*l.*, and who are willing to invest it in a cotton mill, is very limited, and therefore there can only be a limited number of mills with 20,000 spindles. These mills may not suffice to spin all the cotton for which there is a demand, and therefore other and smaller mills must be worked. It is true that the small mills could not remain open if they had to compete with an unlimited number of large mills; but as the number of these is virtually restricted, the small mills may be still worked at an advantage, although the profits obtained by these mills may fall far short of the profits obtained by the larger ones. Large capitals thus obtain an advantage, and possess as it were a monopoly; we shall treat this subject at considerable length in our chapters on profits.

*The advantages of*

It would perhaps be very naturally supposed that, in a



wealthy country like England, production on a large scale when advantageous will never be restricted by the causes to which we have just alluded, for it may be said that if the individuals who have sufficient capital to work large mills are limited in number, there will be no difficulty in gathering together the requisite capital by means of joint-stock companies, and that such companies will avail themselves of the advantages of a large production, and thus drive the small producers out of the market. But joint-stock companies labour under many difficulties; and although they secure the advantages of producing on a large scale, yet in many industrial occupations, joint-stock companies cannot compete with the energy of the individual trader or manufacturer. Such works as railways, docks, and canals require, both for their construction and maintenance, a capital far greater than that possessed by any individual, and therefore such undertakings must be carried out by joint-stock companies. But if a joint-stock company conducts some ordinary business, there is wanting that energy and watchfulness which an individual exercises when a business is his own. If competition is active, a business cannot be successful unless all its operations are conducted with energy, and unless economy is secured by constant vigilance. In a joint-stock company all depends upon the manager or agent. The individual shareholders are not sufficiently interested to take any part in the management of the concern. Men can very rarely be found who are as careful with other people's property as they would be with their own. The manager of a company may do nothing which is in the slightest degree dishonest, it may be impossible to single out any particular instance in which he has neglected to do his duty, yet the position in which he is placed will not probably call forth those qualities which not only distinguish the good man of business, but which also cause the success of commercial undertakings. If the manager is partly

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*production on a large scale only partly attainable by joint-stock companies,*

*owing to the want of interest in shareholders and managers.*

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remunerated by a share of the profits realised, he will no doubt be stimulated to much greater exertion. Joint-stock trading companies have frequently failed, because those concerned in their management have not a sufficiently strong pecuniary interest in their success. There can be no doubt but that individual employers suffer most serious losses from the listlessness and apathy of their workmen, although such employers have the strongest motives to prevent neglect of work by their labourers; the losses however which are thus incurred will be still more serious in the case of a trading company, when the labourers are only watched by a manager, who is comparatively uninterested. A joint-stock trading company would even be more benefited than the individual trader, by adopting some course, if it were practicable, which would give the labourers a pecuniary interest upon the work in which they were employed, for in this manner the energy and skill of the workmen might with greater certainty be secured. Joint-stock companies have always experienced the greatest obstacles in retail trades, where the transactions are numerous and small. The petty details of such business seem particularly to require the energy of individual management.

*Special advantage of co-operative societies.*

The cooperative societies however, which have lately assumed so much prominence in the north of England, are joint-stock companies; the capital is supplied almost entirely by the labouring classes, and therefore the number of shareholders is extremely large. Yet these societies have not only established cotton mills, but have engaged with the most remarkable success in the ordinary retail trades, conducted by grocers, drapers, bakers, butchers, &c. The success of these societies not only proves that the disadvantages of the joint-stock system have been much exaggerated, but also indicates how the most prominent of these disadvantages may be overcome. The prosperity of the cooperative stores is

probably mainly due to the ready-money system which they almost invariably adopt; the smallest sum is consequently rarely lost in bad debts. But the cooperative manufactories only differ in one important respect from ordinary joint-stock undertakings; the labourers in these mills share a certain proportion of the profits realised. This provides an effectual antidote to the disadvantages of the joint-stock system, and fully accounts for the success which these cooperative mills have achieved.

It is in every respect advantageous to a country, that the joint-stock system should be encouraged; it greatly promotes the production of wealth. Small capitals which, if separately applied, would do little towards the production of wealth are brought together by joint-stock companies, and accomplish industrial works of the utmost importance. A thousand individuals who have saved 100*l.* each, may not have the time, capacity, or inclination themselves to employ the money in any business. If each of these individuals subscribed his 100*l.* to one common fund, a capital would be created sufficient to work a large Manchester manufactory; they would become proprietors and promoters of a great commercial concern, annually producing a large amount of wealth, and annually employing many hundreds of labourers.

*The extension of the joint-stock system desirable.*

The relative advantages of large and small farming have long been one of the most controverted points connected with the subject of this chapter. In England, agriculture has no doubt, within the last few years, been conducted on a much larger scale than formerly. In the best cultivated districts of England, each farmer generally rents not less than three or four hundred acres. In many parishes the land which is now cultivated by one or two farmers was, within the memory of those who are still living, parcelled into twenty or thirty distinct holdings. In France, small farming is promoted by compulsory subdivision of land. Although the inferiority of French agriculture

*Large and small farming.*

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CH. VI.

*Advantages  
of large  
farming.*

has perhaps been somewhat exaggerated, yet there can be no doubt that it is extremely bad. Hence the English have become much prejudiced against small farming. We will first point out some of the obvious advantages which arise from large farming. The extended use of agricultural machinery has been a prominent feature of that great improvement in the cultivation of the soil which has taken place within the last few years. Twenty years since the greater portion of the corn grown in this country was thrashed by the flail; now steam-thrashing machines are used in every district, and the flail has been almost banished; even agricultural labourers rejoice in the change, and confess that they should most reluctantly resume the use of the flail; the young men of the present day would probably not submit to such monotonous work. The steam-cultivator seems on the point of being made practically useful, and it is now almost certain that such a method of cultivation will be generally adopted at some future time, not far distant.

*Agricultural machinery more available.*

A much greater proportion of the farmers' capital is consequently now invested in machinery than formerly. A good steam-thrashing machine costs nearly 400*l.*; small farmers cannot afford to avail themselves of all this improved and expensive machinery. Not only can they not afford it, but a steam-thrashing machine requires for its working something more than the resources which a small farm can supply; its working must be attended to by eight or ten men; the corn is taken from the stack by two men, another man has to feed the machine with corn; the engine must have an engineer; the straw must be carried away by one man, and stacked by another; another man must take the grain from the machine, and another again will have to carry water to the engine. It is true that a great many even of the large farmers do not now own, but hire the steam-thrashing machines which they use; such a plan, however, is extremely uneconomical.

A farmer who hires such a machine cannot always obtain it at the exact time he may require it; those who let the machine must make a profit from those who hire it, and for several reasons a high charge must be paid for the use of the machine. There is the expense of taking it from one farm to another; it is earning nothing when being so moved, and the wear and tear caused by dragging it along the roads is very considerable. But a small farmer who hires such a machine is under still greater disadvantages, for he not only has to hire the machine, but must also hire the men to work it, since he has not enough men in his own employment. Men who are hired in this irregular way must be paid more than the ordinary labourer, whose employment is constant, for they have to sacrifice much time in moving from place to place in quest of this irregular employment. Such a farmer will not be able to thrash his corn at the time most convenient to him; he must thrash it when he can get the engine and hire the men.

Small farming generally involves small fields; these fields will be surrounded by hedges, and must be approached by roads, and thus a great deal of land is wasted; the disadvantage of small fields will be greatly increased when steam cultivation is introduced. The steam-plough requires considerable breadth of land upon which to work; at every turn that the plough makes, time is lost; after the centre of the field has been ploughed, the headlands will remain to be ploughed separately; the labour of moving the engine from field to field is considerable; much time may be thus wasted, and in fact it has been calculated that a steam-cultivator would plough a square field of ten acres in half the time occupied in ploughing two fields of five acres each, and at two-thirds of the expense.

Many kinds of labour on a small farm are less productive than on a large one. Thus a flock of 400 sheep requires as many shepherds as a flock of 800. Each

*Fields are larger,*  
*and labour frequently more productive.*

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farm has a carter, whether the farm is 300 acres, or 600 acres. Again, much of the time and energy of a small farmer is frequently wasted, for he would often be able to superintend his farm quite as well if it were larger.

These and many other considerations show that large farming now possesses advantages over small farming, and that these advantages are destined to become more decided as the use of agricultural machinery is extended. Under large farming labour can be made to work with greater efficiency; capital can be applied with greater effect because it can be converted into the most complete machinery, less land will be wasted in useless hedges, and thus large farming tends to make the production of wealth more efficient.

*Advantages  
of small  
farming.*

There are, however, some counterbalancing considerations in favour of small farming, which do not apply with so much force to the agriculture of England as to that of some other countries. The continental traveller must have remarked that the olive, the vine, and other such products which require great care, it may be almost said tenderness, in their cultivation, are most frequently grown by small farmers; the reason of this is, that the cultivation of products requiring such watchfulness and skill could not be trusted to the careless apathy which so frequently characterises the hired labourer. It is seldom that anyone but a mother will bestow the tender care a child needs, and the vine will be seldom properly cultivated except by one who has that interest in it which can alone be derived from the feeling of ownership. Even in England there is a similar advantage associated with small farming; for all the operations of a small farm may be attended by the kindly interested watchfulness of the farmer himself, and this advantage is more prominently shown in those farming operations which require great care. A dairy, for instance, needs a constant attention which the large farmers of the present day have not time or inclination to bestow; hence, if there is a dairy attached to a corn or sheep farm, the large farmer will

generally underlet his dairy; the farmer supplies all the food for his cows, and the person to whom the dairy is let has every motive to give his whole and undivided attention to those minute details upon which the success of a dairy depends.

The question of large and small farming is often incorrectly confused with the consideration of small landed properties. This subject will be discussed in some of the succeeding chapters of this work.

## CHAPTER VII.

ON THE LAWS WHICH DETERMINE THE INCREASE OF  
PRODUCTION.

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CH. VII.

*Conditions  
of an in-  
creased  
production  
of wealth.*

WE have in the two previous chapters discussed some of the causes which determine the productiveness of land, labour, and capital; we have shown, for instance, how the productiveness of land may be increased by good systems of farming, and how the efficiency of labour and capital may be promoted by machinery and by a proper combination of labour. But if the land, labour, and capital of a country are in the most efficient state of productiveness, the production of wealth can only be increased by increasing either the land, labour, or capital; for if when the land in cultivation is in the highest state of tillage more produce from the land is required, it must be obtained by bringing a greater area of land under cultivation. Again, if all the labour which is employed is in the highest state of efficiency, a greater quantity of wealth cannot be produced unless the labour of the country is in some way increased; similarly, if the capital existing in a country is applied to the greatest advantage, and if it supports the greatest number of labourers it is capable of doing, more labour cannot be employed, and as a consequence more wealth cannot be produced unless the capital of the country is in some way increased. Hence the laws which separately regulate the increase of land, labour, and capital, are the laws which combine to determine the increased production of wealth. We therefore intend in this chapter



to discuss the laws on which depend the increase of land and labour; the next chapter will be devoted to a consideration of the laws which determine the increase of capital; and therefore the two chapters will complete our investigations concerning the laws which combine to regulate the increased production of wealth.

The area of each country is limited, but, nevertheless, each country possesses much land which is not cultivated. It would therefore seem that, as far as the production of wealth is concerned, each country has the power of increasing the area of its cultivated land. But land remains uncultivated because it will not pay the expense of cultivation; if this is so, it would appear that the area of cultivation cannot be extended, because no individual would be willing to cultivate land at a loss. In explaining what will take place under such circumstances, we shall introduce to our readers some of the considerations upon which depend the theory of rent, a theory perhaps the most important and the most rarely understood in the whole range of economic science.

That land, as a general rule, remains untilled because it will not pay to be cultivated, is a proposition which we wish the reader to bear steadily in mind. Whenever, therefore, fresh land is brought into cultivation we must suppose that something has occurred which will cause the land to pay for cultivation better than it did before. Agricultural improvements have frequently enabled land which was before unproductive to pay a considerable rent. Thus, the present fertility of Norfolk is in a great measure due to the introduction of the turnip; this root enables large flocks of sheep to be kept, which have fertilised what was before a poor soil. At one time Salisbury Plain was a great tract of down land which paid scarcely any rent, but now, with the assistance of artificial manures, luxuriant crops of corn are grown there. Much of the rich fen land of the Isle of Ely, which is now rented at 3*l.* an acre, was

*Fresh land  
may be cul-  
tivated,*

*owing to  
agricul-  
tural im-  
provements,*

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*or increased  
demand for  
food and  
increased  
value of  
produce.*

forty years since a worthless marsh. In these cases the productiveness of the land has been increased by special improvements. Cases, however, have frequently occurred, and are now constantly occurring, where more land is brought under cultivation, not in consequence of agricultural improvements, but because there is a greater demand for the produce which is raised from the land. If the population of a country increases, its people will require a greater quantity of food; and this food must be obtained either by making the land which is already in cultivation more productive, or by extending the area of cultivation. If at the time this increased demand for food arises there are no particular agricultural improvements to be suggested, the enlarged demand must be supplied by cultivating more land; but as this land did not previously pay for cultivation, and as it would not now be cultivated if it did not pay for cultivation, it therefore follows that the value of agricultural produce must rise in order that the farmer may realise an adequate amount of profit. Since land previously untilled is now supposed to be cultivated, the production of wealth, as we have before remarked, is increased in consequence of the greater demand which has taken place for food. It is not alone the land thus brought into cultivation which is made more productive, but all the land of the country becomes more productive of wealth; for although there is not a greater quantity of produce raised from it, yet the value of the produce is enhanced by the increased demand for food. All the effects here attributed to an increase of population are strikingly exemplified in the progress of a prosperous colony. No one can doubt that many of the great natural pastures of Australia, which now scarcely pay any rent, will in the course of time be cultivated and rented as valuable agricultural land. Within the last few years, the area of cultivation in Australia has rapidly extended. In 1851 the population of Victoria was only 80,000; her population

is now 500,000. The increased quantity of food which is now consumed in Victoria has caused more land to be gradually brought into cultivation; the value of agricultural produce must consequently have risen, because land which is in cultivation now would not have repaid its cultivators when the population of Victoria was so very much smaller.

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Although we have thus shown, *à priori*, that the value of agricultural produce must rise when the demand of a larger population causes more land to be brought under cultivation, yet it will assist the reader, if we explain the primary causes upon which this rise in value depends. Every country possesses land which varies greatly in fertility; an equal amount of labour and capital employed upon one soil will produce very much more than when applied to a less fertile soil. The fertility of a soil, therefore, varies inversely, as the quantity of labour and capital required to obtain a certain amount of produce. The most fertile land is, of course, cultivated first; the earliest settlers in Australia naturally selected the most productive soil; as the population increases, the area of cultivation is extended, and less fertile soils must be resorted to, or, in other words, land is gradually brought into cultivation which does not return so much for the labour and capital expended upon it, as land which was previously cultivated. Hence the production of wealth cannot be indefinitely increased, because the returns to labour and capital diminish, as it becomes necessary to resort to less fertile land. It may, however, be said, that the most fertile land is not cultivated first—that the value of land does not depend simply upon the quality of the soil, but also depends as much upon its situation. It is, no doubt, quite true, that much of the richest land in the world still remains uncultivated; in one country a scanty crop is extorted from an ungrateful soil; in another country, the richest tracts of land do not, perhaps, feed a single human being. Even in

*As the value of produce rises less fertile soils are cultivated.*

*It is true that the most fertile land is not cultivated first—that the value of land does not depend simply upon the quality of the soil, but also depends as much upon its situation.*

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CH. VII.

*Qualified  
meaning of  
'fertile'  
in this as-  
sertion.*

Australia, land still remains uncultivated which is, perhaps, naturally far more fertile than the land which is now under tillage; for land which is comparatively poor, if in the neighbourhood of such a town as Melbourne, can be cultivated with far greater advantage than land much more fertile, but more distant. We had, however, these considerations in view, when we stated that the fertility of the soil ought properly to be estimated by the labour and capital necessary to be applied in order to obtain a certain quantity of produce. This definition of fertility would take account of all the advantages arising from favourable situation. Thus poor land is cultivated in preference to land which is naturally more fertile, because the one land is in a more favourable situation than the other. It is quite possible to suppose that there is uncultivated land three or four hundred miles distant from Melbourne, from which twice as much produce would be raised, if the same amount of labour and capital were applied to its cultivation as is applied to the cultivation of land in the neighbourhood of Melbourne; but, when the produce had been grown upon the land which is so remote, it would not be in that situation where it is required; it would, in fact, be useless, until brought to the place where there was a demand for it; a great amount of labour and capital must, consequently, be expended in bringing this produce to market from the remote districts where it was grown, and, therefore, this labour and capital has been virtually expended in obtaining the produce, although it was not spent in the actual cultivation of the soil. Comparative infertility may thus be more than recompensed by advantages of situation: a favourable situation often contributes as much as fertility of the soil to confer value upon land, and therefore, as the word fertile is generally understood, it is not correct to say that an increase in population will cause less fertile lands to be brought under cultivation; but lands which are less valuable must be resorted to, and

therefore the important principle already stated is substantially correct: namely, that as the area of the cultivation is extended, some of the land will require a greater expenditure of labour and capital, in proportion to the produce raised, than land which was previously cultivated. This principle forms the basis of Ricardo's theory of Rent.

We have already remarked that the proposition just enunciated suggests an obstacle which more or less impedes the continual increase in the production of wealth. The reader, for several reasons, finds it difficult adequately to appreciate the magnitude of the impediment which in many countries is thus placed upon the production of wealth. We shall have occasion frequently to recur to this subject; we may, however, here make a few more remarks upon it with advantage. It may be thought that, although less fertile land requires more labour and capital, yet the general value of agricultural produce will be but slightly affected. For it may be urged that the productiveness of the land which was previously cultivated will not in any way be diminished, on account of the more expensive culture required by the less fertile land, to which it is supposed resort must now be had. A portion only of the produce which is raised from the land will require a greater outlay of labour and capital, the productiveness of all the remaining land will be unchanged, and hence no serious impediment can be caused to the production of wealth. We must repeat, that when an increased demand for food brings less fertile land into cultivation, this food is obtained at a greater cost of labour and capital, and therefore food becomes more expensive. But the value of wheat of the same quality does not vary, when brought to market, because one sack of wheat has been produced at a greater cost than another; of course this is matter of no consideration to the purchaser, but simply to the growers of wheat. If therefore it is necessary that the price of wheat should rise, in order to make the cultivation

*An increased demand for food tends to increase the value of agricultural produce.*

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of inferior land remunerative, the price of all the wheat grown must rise in a similar manner, and food consequently becomes more expensive. If by these causes the price of wheat is raised, it is manifest that the farmers who cultivate the more fertile land must derive a great advantage, because the produce which they obtain does not require more labour and capital, and yet its price is materially increased. The farmers however cannot in the long run appropriate this advantage to themselves, as the landlords secure it in the form of increased rent. A further discussion on this branch of the subject would involve the theory of rent; and this theory does not properly belong to the production, but to the distribution of wealth.

*Tendencies  
not to be  
confounded  
with results.*

The important proposition we wish to establish concerning the production of wealth is, that an increased demand for food has a tendency to make food more expensive, and as such an increased demand is almost always caused by an increased population, we may enunciate the principle thus: that as population advances, food has a tendency to become more expensive. In the enunciation of this principle, we have employed the word tendency. We believe that an example may be thus afforded, which will illustrate the great importance of enunciating almost all the principles of political economy, as exerting tendencies, rather than as producing actual results. This has not been sufficiently attended to, and we are convinced that the omission has retarded the progress of political economy, and has been the source of much of that prejudice and incredulity which practical men express towards the conclusions of this science. In mathematics a force is measured by the effects which it has a tendency to produce, i.e. which it would produce if not counteracted by other forces. The force of gravity is estimated by the space through which a body would fall in a second of time, if it was acted upon by no other force; this space is sixteen feet; all bodies, however, do not so move, although every particle of matter is acted on by the

same force of gravity. A feather floating in the air is attracted by the force of gravity, and yet it does not fall through sixteen feet in a second of time; the feather does not fall through this space because the downward motion of the feather is retarded by the resistance of the air. Although the force of gravity is thus partly counteracted, it is not either destroyed or rendered nugatory; its effects may appear to be different, but the force of gravity always exerts a tendency, whether the tendency be counteracted or not, to make a body move through sixteen feet in a second of time. It would be very unreasonable to assert that the theory of mechanics was erroneous, because other forces intervene and modify the effects attributed to the action of a certain force. The distrust which is sometimes shown towards the principles of political economy is equally unreasonable; these principles attribute certain effects to certain causes, but the effects will be altered, if the causes are modified; these causes, like the forces in mechanics, are often affected in their operation by many disturbing agencies. For instance, we have enunciated as a principle that the tendency of the increased demand of an advancing population is to make food more expensive. Political economy however is not in error, because circumstances may occur which will counteract this tendency; we are all aware that this tendency towards higher prices has been and may be again counteracted; that agricultural improvements, for instance, have often been introduced, which have enabled the increased wants of a larger population to be supplied without any rise in the price of food. The population of Great Britain has increased 4,500,000 since 1841, and yet the price of wheat is on the average lower now than then; but this fact does not falsify the principle we have above enunciated. The circumstances which have prevented a rise in the price of wheat are patent to all. Before 1848, we were in a great degree restricted to our own soil for our supplies of corn. Now

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*Why the price of wheat has not risen in England.*

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we are freely permitted to purchase wheat from any country which offers it for sale. Eight million quarters of wheat were last year imported, and with better means of communication even such remote countries as the Punjab and California will regularly export wheat to Great Britain. Free-trade has therefore virtually added a vast tract of fertile land to the cultivable area of this island. Suppose that, in consequence of the great abundance of fertile land in the valley of the Mississippi, wheat grown there could be sold in our markets at a less price than would adequately remunerate the English agriculturist if he grew wheat on many of the less productive farms in England. Under these circumstances the valley of the Mississippi would, as far as the supply of wheat is concerned, serve England the same purpose as if a tract of fertile land could be added to her shores. We are quite ready to admit, that the effects attributed by political economy to one particular cause, seldom occur with strict exactness; such perfect conformity could not take place unless the cause acted alone, and this is very rarely the case; the practical utility of political economy however is not for this reason lessened, for the science demonstrates that certain results must ensue, if a counteracting influence does not come into action. We will illustrate our meaning by referring to an argument, which we believe is unanswerable when urged in support of free-trade. The population of England is advancing; if we are restricted to our own soil for supplies, then food will be obtained at a greater cost of labour and capital, and food must ultimately become much dearer. It therefore becomes most important that the fertile soil of the whole world should, as far as possible, be made available to supply us with the produce we may require.

*Increase in  
 the labour-  
 ing popu-  
 lation.*

We must next consider how the production of wealth is affected by an increase in the amount of labour, or, in other words, by an increase in the number of the



labouring population. Labour is increased when it is made more efficient. If a machine is introduced which enables one labourer to do the work of six, of course the amount of labour in the country is augmented, but this increase is due to improvement in the efficiency of labour, a subject which was considered in the last chapter. We must here therefore restrict ourselves to a discussion of the consequences which result, when an increase in the number of the labouring population causes more wealth to be produced. If a greater quantity of any commodity is required, a greater number of labourers must be employed, unless some industrial improvements are introduced. Suppose, for instance, there suddenly arose a very active demand for English cottons in China; a much greater number of labourers would soon be engaged in cotton manufactories. It may be asked, How is the increased number of labourers to be obtained? Surplus hands will be drawn from other employments, and emigration will be checked, if there is a great demand for labour. If the demand for additional labour continues, an increase of population will be powerfully stimulated, and the labour required will ultimately be supplied principally from this source. It is important to point out in what manner an increase of population is promoted by an active demand for labour.

Labour is in demand when trade is good; then wages are high, and the labourers are prosperous. It is found that the number of marriages amongst the poorer classes is invariably much greater when the labourers are prosperous. There is no surer test of the prosperity of the labouring class than the low price of bread, and there are few statistical facts better substantiated than that the marriages amongst the labouring class increase with the fall in the price of bread. It may be reasonably assumed that wages are high when trade is good. But from what source are these higher wages supplied? It must be from the capital of the country, because this is the fund from which the labourers'

*Influence of  
a demand  
for labour  
upon the  
amount of  
population.*

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CH. VII.

wages are provided; the circulating capital employed in any trade or manufacture must be increased if the labourers engaged in it receive higher wages. We may here generally remark, that when a trade is active the profits are high, and thus a great inducement is offered to those engaged as employers in the trade, not only to save more, but to apply a greater amount of capital to their business; thus additional capital is either borrowed or is withdrawn from other investments. But now, having pointed out some of the sources from which an increased number of labourers will be obtained, we have next to consider how this increased population will be fed. We have just remarked upon some of the sources from which the additional wages paid to the labourers will be supplied when an active trade causes a greater demand for labour. Let us suppose, therefore, that when the labouring population has increased, the circulating capital of the country has been proportionately augmented; but if there is a larger population, more food will be required, and the important question arises, Under what conditions is this food to be obtained? In answering this question we avail ourselves of that principle which has been so carefully stated in the first section of this chapter, namely, that there is a tendency for food to become more expensive as the demand for it increases, because less fertile land has to be resorted to, the returns from which are not so large in proportion to the labour and capital expended upon it.

*Relation between increase of population and increased production from land.*

The production of an increased quantity of wealth requires a greater number of labourers, and when the labouring population is thus augmented food will become more expensive, unless the additional food required can be obtained either by agricultural improvements, or can be imported at a comparatively cheap rate from other countries. All that we have here stated is strikingly exemplified by the events which have occurred within the last few years. The trade of the country has advanced

*Exemplification of these principles in late years.*

with marvellous rapidity, the number of labourers now engaged in the manufacturing industry of this country exceeds by many millions the number employed twenty years since. The capital invested in our manufactures has even advanced more rapidly than the increase of population. Not only are there more labourers, but the wages of these labourers have risen very decidedly within the last few years. Two causes, therefore, have combined to increase the demand for food, namely, a larger population and a better paid labouring class. This increased consumption of food is abundantly verified by the import tables; although England's own soil has been made far more productive, and much more land has been brought under cultivation, yet the importation of all the common necessaries of life consumed by the labourers has been largely augmented. But it may be said, political economy would predict that, in consequence of such a demand, all food will become more expensive; and yet bread is cheaper. Now, however, as we have before remarked, we have the whole world from which to obtain our supplies of wheat, and the cost of carrying wheat from one country to another is comparatively small. There has, however, been a most decided rise in the value of those articles of food which we cannot with such facility obtain from other countries. For instance, it is much more difficult and much more expensive to import meat than corn. Meat must reach a scarcity price in England before it would be remunerative to send cattle and sheep from even the eastern shores of America, and yet corn has this year been imported with considerable profit from the remote regions of California. Since, therefore, we are to a much greater extent restricted to our own soil for meat and dairy produce, importation has not been able to counteract that rise in the price of these articles which, according to political economy, must accompany the increased consumption of a more numerous and better paid labouring class, and the result has been that meat and dairy produce have

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become fifty or sixty per cent. more expensive within the last few years. In all probability the trade and commerce of England will steadily progress; the labouring population will increase, but the vast capital which is constantly being accumulated will supply the advancing population with as high if not higher wages. Every year, therefore, a greater quantity of food will be consumed in this country; but the area from which this food may be obtained is rapidly being extended into every quarter of the world; new sources of cheap food are being opened and developed in our colonies and dependencies by English capital and by English emigration. Before many years have passed a railway will be carried into the heart of the Punjab, and in the opinion of the late Lord Dalhousie, India will then supply to our markets wheat of an excellent quality, at twenty shillings per sack. England's labouring population may, therefore, continue to increase for many years to come without any rise in the price of those articles of food which can be easily imported. As meat and dairy produce, however, cannot to any great extent be supplied to us from distant countries, there can be no doubt that meat and dairy produce must greatly rise in price compared with corn, and an inevitable tendency will thus be exerted to make England produce more stock and grow less corn; and it, therefore, appears that much of our present arable land may again be restored to pasture.

## CHAPTER VIII.

## ON THE INCREASE OF CAPITAL.

IN the preceding chapter we have remarked upon some of the more prominent conditions which determine the increased production of wealth, as far as it depends upon an increase of the cultivated land, and upon an increase in the number of the labouring population. But larger production also requires an increase of capital. It must be evident, from the remarks we have made upon capital, that an increase of capital is as essential to a larger production of wealth as an increase of land and labour. If land, for instance, is more highly cultivated, additional capital must be applied to it; and new land cannot be brought under cultivation without the application of capital to it. If more labourers are employed, a larger fund, in the form of circulating capital, must be devoted to pay their wages. Improvements in the process of industry cannot be introduced without the expenditure of capital. Machinery, warehouses, manufactories, railroads, ships, all such industrial appliances as these, exhibit the various modes in which the fixed capital of a nation assists her industry.

We have previously asserted as a fundamental proposition that capital, whether fixed or circulating, is the result of saving. Increased capital, therefore, implies increased saving; and hence we may determine the laws which regulate the increase of capital by considering the causes upon which depend the increased saving or accumulation

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*Increased  
production  
of wealth  
implies an  
increase of  
capital,*

*and, there-  
fore, in-  
creased  
saving,*

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*which may  
be due to  
two motives  
—fore-sight  
and desire  
for profit.*

of wealth. There are two principal motives which induce men to save; and these are, first, a prudent foresight with regard to the future; and, secondly, a desire to make wealth by an advantageous investment. The first motive is by far the more powerful. To its action has been due the greater part of all wealth which has been saved. But the second motive is the chief cause of fluctuations in the amount of a nation's capital. Whether the amount of capital at any time existing in the country is above or below the average is almost entirely determined by the profit which it may be thought the capital will realise. This profit may be estimated by the current rate of interest. But in political economy, as in many other sciences, the causes which produce the disturbing fluctuations require a more careful investigation than those causes whose action is more constant, and more undeviating. The earth when revolving in its orbit is acted on by a great number of forces. It is attracted by every body in the planetary system, yet these forces combined are almost immeasurably inferior to the force of attraction which is exerted by the sun. Most important mathematical investigations, however, depend upon the action of these disturbing forces. Similarly, in political economy, the effects of the more constant causes can be readily estimated; but causes more varying in their action introduce fluctuations and disturbances which must be investigated and classified by the scientific principles of political economy.

*Importance  
of the de-  
sire to ac-  
cumulate  
wealth.*

Nothing more distinctly marks the superiority of man over the brute creation than the prudent foresight which causes an adequate provision to be made for the future. The more civilised men are, the more is this foresight shown. Civilised men anticipate, with keen perception, the wants of the future. To provide against the contingencies of the future engrosses, perhaps, the too anxious care of the nation. The precept that the morrow will take care of itself is disobeyed with scrupulous anxiety by civi-

lised men, and implicitly followed by those tribes who still grovel in a wretched barbarism. The Jesuit missionaries, who a century since formed a settlement in Paraguay, found the great difficulty they had to contend with was the utter recklessness of the people. The missionaries gave them seed. They knew that this seed would, if sown, in a few months yield them a plentiful supply of food, yet they could not be restrained from eating the seed instead of sowing it; the smallest present enjoyment was by them preferred to the greatest prospective advantage. People in such a condition can be very little superior to the more intelligent animals, whose hereditary instincts induce them to provide against danger which they may have to encounter. Birds build nests which are most perfectly adapted to protect their young; beavers construct their habitations on a plan so admirable that it seems almost to rival the skill of man; and even dogs collect a store of food to which they will resort when pressed by hunger.

In England the desire to accumulate wealth acts with great force. It is impossible accurately to define the causes which regulate the amount saved by any individual, but it may be stated generally that in England each class of society has a recognised standard of living which involves a certain expenditure, and the whole of an individual's income which is in excess of this expenditure is usually saved and invested with great care. The amount which is saved is, therefore, partly dependent at any particular time upon the material prosperity of the country. If activity of trade or any other such circumstance should increase the incomes of any particular class, the annual incomes of this class would be augmented: there would be a larger fund from which savings might be made, and more would be saved. Habit, far more than the amount of an individual's means, usually determines his expenditure. A man whose income for some time having been uniform was suddenly doubled, would very probably save the greater

*Its strength  
in England.*

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portion of his additional income. Any circumstance, therefore, which tends to augment the wealth of the nation, will induce increased saving. There is no doubt, however, that the majority in this country, if we except the worst paid labourers, could save more than they are accustomed to save. There are few in the middle and upper classes of society who do not spend considerable sums on useless luxuries and unprofitable enjoyments. Hence the capital of the country will be augmented by any circumstance which makes the people more economical.

*The amount of saving is partly determined by the cost of the articles consumed.*

It may also be remarked that the amount of an individual's expenditure is to some extent determined by the cost of the commodities which he consumes. The consumption of some articles diminishes in proportion to the rise which may take place in their price. It has, for instance, been found that when the sugar duties have been raised beyond a certain amount, they do not produce a larger revenue. The rise in the price of sugar induces large numbers to give up its use. Such articles, however, as tea and bread are, in this country, almost universally regarded as necessaries of life; and the quantity of tea and bread which is consumed by those classes who accumulate the capital of the country, is not materially affected by a variation in the price of these commodities. If, therefore, bread and tea decline in price, household expenses of the middle and upper classes will be diminished, and a larger portion of their income will remain to be saved as capital. We mention this as applying particularly to the middle and upper classes, because there is no doubt that our labouring population would gladly consume a greater quantity, even of the ordinary necessaries of life, had they the means of purchasing them. If the price of tea is reduced one-half, the labourers will probably continue to spend upon this article as much as they had previously done; they would spend less upon bread if its price was reduced, but the amount which they thus saved would



not, as a general rule, be invested by the labourers as capital, but would be applied to satisfy some of the many wants of life, which they have not the means of gratifying. The labourers therefore are benefited in two distinct ways, by the cheapening of any article of ordinary consumption. They have, in the first place, to pay less for it when they purchase it, and secondly, the cheapening of such a product has a tendency to augment the capital of the country, by enabling the middle and upper classes to increase their savings, and the labourers will receive higher wages if capital is increased.

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We have however before remarked, that the fluctuations in the amount of capital which is saved, depend upon the nature of the opportunities which present themselves for investment. If the profits which can be realised upon capital increase, a greater inducement is offered to save, and a larger amount is sure to be saved. From such a source, either directly or indirectly, any large increase of capital which may be required is mainly supplied. At any particular time there is a certain interest upon capital which people expect, and with less they will not be satisfied. But it will perhaps be said, what does a capitalist do with his capital; if he wants  $3\frac{1}{2}$  per cent. interest, and can only obtain 3 per cent., he will not squander it because he is not satisfied with so low a rate of interest; will, therefore, less wealth be saved? Less no doubt will be saved, because a low rate of interest offers less inducement to save; the most important point however to be borne in mind is, that a much smaller portion of the wealth which is saved will be invested as capital in our own country, when the rate of interest is low. England, far more than any other country, offers a striking example of the vast amount of capital which the people are ready to invest, if a favourable opportunity presents itself. When the government requires a loan, many millions are at once subscribed, without encroaching in the slightest degree upon either the circ-

*Causes of  
fluctuations  
in the  
amount of  
saving.*

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 Foreign in-  
 vestments.

lating or fixed capital of the country. The loan is not altogether supplied from capital which was previously unemployed, but England has vast sums invested in almost every civilised country. Magnificent as are the tokens of England's wealth which surround us on every side, yet our manufactories, our railroads, our mercantile marine will not give us an adequate idea of England's riches, unless we remember that there are few countries either in the new or the old world that are not our debtors. Russia, Turkey, India, Australia, Canada, the United States, the Republics of South America, all have satisfied their state necessities, by loans supplied from English capital. But it is not only foreign governments who borrow from us; a vast number of the foreign speculations have been supported by English capital. The greater part of the railroads throughout the world have been made by English capital; the Grand Trunk Railway of Canada has absorbed 15,000,000*l.* of English capital; a large portion of the shares in French railways was originally held in this country; in the last twelve years, England has subscribed 11,000,000*l.* towards Indian railways. Her irrigation works and her roads have been constructed by English capital, and some of the richest mines in South America have been worked by English companies. Consequently only a small portion of the wealth which is annually accumulated in England is retained to be invested in this country. If, therefore, England requires a greater amount of capital to extend any branch of trade or to carry out any public work, she can supply an amount which is practically unlimited. If, for instance, there was such an expansion in our cotton manufacture, that 100,000,000*l.* of additional capital was required, it would be readily obtained, by placing some slight check upon the investments of English capital abroad. The amount of capital, therefore, which is applied to the production of wealth in this country, does not so much depend upon the amount

which is saved, as upon the proportion retained by the country itself of all the wealth which is saved. The relative amount of the English capital which is invested at home and abroad is regulated by many considerations, the chief of which is, the rate of interest which can be obtained at home compared to that which can be obtained in foreign countries. We must postpone the further discussion of this most important subject, until we reach those chapters which treat of profits.

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It should always be borne in mind that a most serious error will be committed if the economical condition of England is taken to be the type of the economical condition of other countries. England, in many respects, offers a direct antithesis to other countries; thus, she possesses an almost unlimited capital, but has very little fertile land at the present time uncultivated. India and many other countries are very deficient in capital, but possess vast tracts of fertile land still untilled; therefore, contrasting England and India, the increased production of wealth will take place under very different conditions in the two countries. In England capital is readily supplied to assist an increased production of wealth. The labourers' wages will probably rise when the industry of the country is active. There may, however, be one drawback to the benefit which they thus derive. As the tract of fresh soil which England can bring under cultivation is so limited, the price of many articles of food will rise, in consequence of the larger consumption of a more numerous and better paid labouring class. India, in her present condition, has a most abundant supply of land and labour, but her capital is so restricted that it is difficult for the production of wealth to increase unless capital is obtained from other countries. Under such circumstances, it is quite possible to conceive that the labourer in India may suffer, if the demand for some of her products should stimulate her industry. Capital and labour do not readily

*Economical condition of foreign countries as to the requisites of production.*

*India has abundance of land and labour, but little capital.*

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flow in India from one district to another, and, therefore, we may regard each district in the light of a distinct country. Let us then suppose that in some province in India a much larger quantity of silk is grown now than formerly, in consequence of England's demand for silk. The capital of the province will probably not be largely increased, since England will for some time hesitate to invest capital in an industry carried on without her supervision. The capital now supposed to be invested in the culture of silk will to a great extent have been withdrawn from other employments, say, for instance, from the cultivation of the land. But if less capital is applied to the cultivation of the land, less food will be produced; food will become more scarce and expensive, and a serious injury may be inflicted upon the labourers of this province in consequence of the rise of a new industry.

*Thus Eng-  
land wants  
cheap food,  
and India  
capital.*

It is evident, from our previous remarks, that in England the great requisite for the increased production of wealth is a large supply of cheap food. This cheap food may be obtained either by importation, by agricultural improvements, or by extending the area of land cultivated in England. Industry cannot be for any length of time impeded in this country by any want of labour and capital, but in India an increase of capital, both fixed and circulating, is most essential to a larger production of wealth. She possesses an abundant supply of fertile land and of cheap labour, but for some time to come the greater portion of the additional capital applied in India must be obtained from England. Ages of anarchy have produced a widespread feeling of insecurity throughout India. Individuals have been afraid to exhibit their wealth, because it would tempt the rapacity of those who have the power to pillage their weaker neighbours. A great part of the wealth saved was hoarded, and it consequently performed none of the functions of capital. The owners of property felt that it was only secure when it could be concealed. If they

employed labourers, they could not feel certain that they would be able to retain the results of the labourers' industry. Hence we can reasonably anticipate one most beneficent result from England's rule in India; for her power, in course of time, may make every class in India feel that the rights of property shall be respected. Nothing will more tend to increase the capital, and hence the wealth of the country; for when security is given to property there is a great inducement to save, and the wealth which is saved, instead of being hoarded, will be usefully applied as capital to assist the further production of wealth. India is at the present time deriving the greatest possible advantage from England's rule. No other country has the power of conferring such benefits upon India. England is annually spending 7,000,000*l.* upon Indian railways; and this important addition to India's capital is supplied for the most valuable of all purposes. As we have before remarked, want of capital is the great impediment to India's prosperity; but the causes which prevent the increase of capital in India affect fixed capital more than circulating capital. The investment of wealth in the form of fixed capital implies great confidence in the security of property and in the stability of government. Property in the form of fixed capital can be readily destroyed; and undertakings of great public utility, such as railroads, canals, and irrigation works, cannot be carried out unless a great number of individuals combine their capital. Such a combination requires that men should repose in their fellow-men an amount of confidence which implies a somewhat advanced civilisation; and no other country except England is sufficiently wealthy to supply India with such vast sums of capital.

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CH. VIII.

*Useful results to India of her connexion with England.*

Although there are so many points of diversity between England and India, yet there are other countries whose economical condition differs most essentially from either that of England or India. The main requisite for the

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*In the West Indies there is abundance of land and capital, but little labour.*

increased production of wealth is, in India, an increase of capital, and in England, an increase of land, or, in other words, an increased supply of cheap food. In the West India islands, however, there is an abundance of land and capital, but a great scarcity of labour. The decline in the prosperity of these islands is, in an economical sense, most instructive. Previous to the emancipation of the slaves, the West Indies possessed all the three requisites of production; their soil was fertile, it was owned by English proprietors, who readily supplied all the capital that was required, and labour was, of course, never deficient when slaves could be freely imported, and when there was an abundance of money with which to purchase them. But the abolition of slavery not only freed the slave, but effectually checked the importation of labour. Property in man was declared to be illegal, and therefore no one would resort to the expense of importing labour when he had not the power to retain the services of the labourers he imported. The emancipated negroes of the West Indies are, of course, unwilling to do as much work as when labour was extorted from them. Degraded by their bondage, their wants were few, and easily satisfied; the rich fertility of the tropics supplies them with almost all the food they require, with the exertion of very little labour. Why should they, therefore, constantly toil? they have few tastes to gratify, and few wants to satisfy. No one will labour for labour's sake; the emancipated negroes are well fed almost by the spontaneous bounty of nature, and they are therefore perfectly contented to live a lazy life of repose. The consequence of this is that the production of wealth has almost ceased in many parts of the West Indies; the land is as fertile as it was before. English proprietors would only be too glad to supply capital if they could find the labourers upon whom the capital might be employed; but this labour is not forthcoming, the production of wealth cannot proceed, and estates, which before

*Consequences of this deficiency.*

1833 were worth 10,000*l.* a-year, are now little more than a useless burden to their owners. It is thus quite evident that it is impossible for the West Indies to become more prosperous without a larger supply of labour. How is such a supply of labour to be obtained? In the first place, labourers may be imported; secondly, the population of the islands may increase, and the people may become more desirous to labour, as their wants become gradually enlarged. Let us first consider the importation of labour. Labourers may pass from one country to another entirely of their own accord. Large numbers of Chinese have emigrated to Australia because they could earn higher wages in Australia than in China. Australia never took any steps to encourage their coming; their presence is, in fact, so much objected to, that an extreme measure has been passed, and a poll-tax of 10*l.* has been imposed on every Chinese who lands. If the Chinese felt that equal advantages were to be secured in the West Indies, no doubt great numbers would emigrate to these islands, and thus supply the labour which is so much needed. It is, however, a singular fact, that the English, the Germans, and the Chinese are the only people who freely emigrate at the present day\*. Now it is quite impossible for English or Germans to work in a sugar plantation under a tropical sun; if, therefore, the Chinese will not resort in the same way to the West Indies as they have to California and Australia, the West Indies cannot depend upon a supply of labour from voluntary emigration. By voluntary emigration I intend to signify that the emigrant seeks the country to which he goes, and that the country does not seek the emigrant. For instance, the coolies are not voluntary emigrants. A government votes a certain sum of money to fit out ships which sail to the Malay Archipelago. The natives are canvassed to emigrate, their expenses are paid,

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*Difficulty  
of sup-  
plying it by  
importing  
labour.*

\* I here use, as in other places, the word English to describe the inhabitants of the United Kingdom generally.

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and they are promised work when they arrive at their destination. Large numbers of coolies have in this manner been imported to the Mauritius and the West Indies, but the traffic is liable to be abused, and the coolies have occasionally endured on their voyage sufferings which seem to revive some of the horrors of the slave-trade. The coolie-traffic can never be carried on by private enterprise, because, if an individual imported coolies, he would have no power to compel them to work for him in preference to another person. If such a power were permitted, there would cease to be any real distinction between the coolie-traffic and slavery.

*Other  
means of  
remedying  
the evil.*

The population of the West Indies is, as we before remarked, too lazy to work; and the only hope of making the people more industrious, is to stimulate in them new desires and new wants; they will not, of course, work as long as they are content to obtain little else but the food which the islands supply in abundance. If they can only be made more anxious to have expensive clothing or expensive food, which may perhaps have to be imported from other countries, they will at once have a motive to work, and the West Indies will cease to suffer from the present great scarcity of labour. England, therefore, offers a striking contrast in every respect to the West Indies; nothing can exceed the ceaseless industrial activity of the English people. We all of us labour, because there is some desire which we wish to gratify. Our labourers are pressed on to continuous labour by the necessity of procuring a livelihood. Our climate is rigorous, and the bounty of nature will not supply us with the means of supporting life unless we work with energy and with constancy. The middle classes are urged on to industrial activity by the desire to improve their social and material position.

*In America  
land and  
capital are*

The economical condition of America, as far as the production of wealth is concerned, differs in some respects



from each of the three countries we have considered. In America, labour is comparatively more scarce than either land or capital. We say comparatively more scarce, because in the West Indies the scarcity of labour is so great that the production of wealth is almost entirely prevented; but this is not the case in America, for in no country has the production of wealth advanced with greater rapidity. If, however, we compare America with England, we know that land is much cheaper in America and labour much dearer; and one of the consequences of this difference is strikingly exemplified by a circumstance which has been noticed by almost every traveller in America, but which has been seldom explained. America is ill cultivated compared with England, and her agriculture appears to be most slovenly; there must be some cause for this difference; it cannot be explained by that never-failing resource of shallow thinkers, a difference of race. An agriculturist, who may in England have cultivated his farm like a garden, will, if he emigrates to America, find it greatly to his interest to adopt a very different system of tillage. The reason of this may be best shown by an example. An English farmer, let us suppose, cultivates a hundred acres of land, for which he pays 200*l.* a-year rent. 200*l.* a-year expended in wages on his farm will return the farmer a fair profit for his capital and his exertion; but he may think that it will answer his purpose to farm more highly, to employ twice as much labour as before. He will be remunerated for the additional 200*l.* which he expends on wages, if the increased produce from the farm sufficiently exceeds the cost of this extra labour to leave the farmer a fair profit on the additional capital he has expended. If this is the case, the additional labour will be as profitable to the farmer as that which he first employed, but it will not be so productive. When only 200*l.* was expended on wages, the produce of this labour must have been sufficient not only to return a fair profit upon the amount expended

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*plentiful,  
but labour  
dear;*

*effects of  
this upon  
agricul-  
ture.*

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in wages, but must also have been sufficient to cover the rent. If the additional labour employed diminishes in productiveness, it may be said why not apply it to other land? it cannot, however, be applied to equally good land without having to pay a rent for the use of the land; hence, up to a certain point, it is more remunerative to apply additional labour to the same land, although the labour diminishes in productiveness, rather than to apply the labour to other land for which rent will have to be paid. But if good land was extremely plentiful, or, in other words, rents were extremely low as in America, it would manifestly be far more profitable to cultivate fresh land rather than apply additional labour upon land already under tillage in order to cultivate it more highly. Hence, in America much less labour is employed in the cultivation of a certain area of land than would be employed upon the same area in England, and farming is consequently more slovenly in the former than in the latter country, because in the one country land is cheaper than in the other, and labour dearer.

*Comparison of the different results obtained.*

In this and the preceding chapter, we have investigated the laws which regulate the increase of land, labour, and capital. These laws combined, furnish the conditions upon which depend an increase in the production of wealth. We have attempted to illustrate the manner in which these laws may be combined, by considering four countries, England, India, the West Indies, and America; and in each of these countries the requisites for an increased production of wealth assume, relatively, different degrees of importance. In England, an abundant supply of cheap food is most required; in India, an increase of capital is most essential; and in the West Indies, an increase of labour. In America, as in England, the production of wealth meets with no serious impediment, for it advances with the most extraordinary rapidity. Yet, in America, there is a comparative scarcity of labour, and

an ample abundance of land. America and England have conferred upon each other the most important mutual benefits. Cheap food is essential to England's progress, and our greatest supplies are obtained from America. Cheap labour is the most valuable gift to America, and our surplus population, which would become burdensome to us if there had been no emigration, has provided America with the labour she so much needs.

We have now considered all the more important propositions which concern the production of wealth. We shall frequently recur to this portion of our subject, and thus the reader will obtain a firmer grasp of many of the principles we have discussed. We now pass on to the next branch of our subject, which is the distribution of wealth.



**BOOK II.**  
**DISTRIBUTION.**



## CHAPTER I.

### PRELIMINARY REMARKS ON PROPERTY.

HAVING considered the production of wealth in the last book, we now pass, by a natural sequence, to expound the principles which regulate the distribution of this wealth. We were compelled, in some of our remarks on the production of wealth, to anticipate the fact that the wealth produced is distributed amongst different classes. We have spoken of the wages of the labourers, of the profits of the capitalist, and of the rent of the landlord. We have also alluded, in general terms, to some of the sources which supply the wealth thus distributed; for instance, we could not explain the subject of capital, without showing that the capital of the country is the fund from which the wages of the labourers are supplied, and, therefore, if the capital increases, the wages paid must increase. Although we have been compelled, in this manner, slightly to encroach upon the subject of the distribution of wealth, yet we have hitherto said nothing upon the principles which determine the relative amounts of the shares into which wealth is distributed. It, therefore, remains for us to explain why wages are high or low, why profits rise or fall, and why rents in one country vary so greatly in amount at different times and in different places. This book, therefore, will probably be more interesting than the last, because in it we shall discuss questions of the greatest practical importance; we shall have occasion to show how wages and profits are

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*Distribu-  
tion of  
wealth.*

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affected by such combinations as strikes, and how industry is influenced by the different tenures of land which exist in different countries; the subjects discussed will, in fact, have equal interest for the philanthropist and the trader, for we shall be able to explain to the philanthropist the poverty of the poor, and suggest remedies for its alleviation, and we shall be able to point out to the trader the conditions which regulate the profits secured in commerce.

*The distribution of wealth implies property,*

Distribution of wealth implies the idea of property. If there was no property, or, in other words, if no individual could possess anything which he could claim as his own, there could of course be no distribution of wealth. Every one would then obtain, either by chance or by force, the food and other necessaries which minister to the wants of life. It is impossible for property to exist until society is organised, for the fundamental idea involved in property is this, that those who own the property possess in it a right, which will be enforced by law; but the existence of law implies that a people composing a state or a nation will exercise a combined power to make individuals regulate their conduct according to certain rules termed laws. Such combined action constitutes the power of government, and the government ceases to exist if it is not able to exercise its power and enforce obedience to its laws. A great portion of the laws of every nation concern property; such laws vary greatly in different countries and at different times, and property has rights in one age of a nation's existence which it has not in another. In some countries at the present time, there is, as far as the rights of property are concerned, no difference between slaves and horses. Before the passing of the Act of Emancipation, a negro, if purchased by an English colonist, became as much his property as an article of domestic furniture. In feudal times, a baron could enforce various personal services from those who occupied his land; they were bound to furnish him, if he waged war, with a certain

*and is affected by the different laws about property.*



number of men, horses, and coats of armour. There is, again, the greatest difference in the control which can be exercised over the disposal of property; for, in England, land can be entailed, and devised by will, to an unborn child. In France, the owner of land has no power to prevent his children sharing it equally upon his death. Then again, property is held in different ways; a great number of individuals forming a company or society may be the joint owners of property. Property may be held on lease. In Europe, the land is chiefly the property of private individuals; whereas, in India, the bulk of the land is owned by the government. It would be impossible to describe the origin of all the different kinds of property, and the rights connected therewith, without writing the history of each country; but although it does not pertain to political economy to discuss the origin of the laws of inheritance, or of landed tenure, yet the production and distribution of wealth are most materially influenced by particular laws of inheritance, and by different systems of landed tenure; and, therefore, all such influences must be most carefully considered in a treatise on political economy.

It has been remarked that the principles which regulate the production of wealth have the character of physical laws. The distribution of wealth is much more liable to be controlled by the human will. As an instance, nature supplies the materials out of which all wealth must be created; and the kind and amount of the labour which must be bestowed upon the raw material when it is converted into some manufactured commodity depends upon the properties of the material. Again, the world has been so constituted, that every country possesses land of various degrees of fertility; from this circumstance we deduced that important law which was explained in the last book, and which affirms that the cost of agricultural produce has a tendency to increase as the demand for it advances.

*The distribution of wealth is affected by custom and competition.*

The production of wealth is, therefore, influenced by various physical conditions which are independent of human agency; but the distribution of wealth is, of course, entirely subject to human control. Men may regulate the distribution of wealth by any rules or principles of their own creation; and it is the appropriate purpose of political economy to explain the consequences which must follow from the rules which may be adopted, or from the principles which may be brought into action. It is, for instance, quite optional with men whether they allow custom or competition to regulate the distribution of wealth, but it is not optional with them to control the effects which follow when a particular custom has been adopted, or when competition has regulated a transaction. In England competition is far more active than in almost any other country, and, therefore, many of the practical conclusions of political economy must be somewhat modified before they are applied to other countries, where, perhaps, custom is far more powerful than competition. In England competition regulates the rent of land; but in many parts of Italy, according to an invariable custom, metayer rents are paid, or, in other words, one-half the produce is given for the use of the land. In England, again, the produce of the land is shared amongst three classes—the landlords, farmers, and labourers; but throughout the greater part of the world the produce is shared only amongst two classes, the landlords and farmers being combined in one, like the ancient freeholders of England; or the farmers and labourers are merged into one class, like the miserable cottiers of Ireland. On the continent of Europe peasant proprietors are very numerous, and in these cases the individual owns the land, cultivates it himself, and likewise provides the capital. We shall trace with care the consequences which arise from these various arrangements.

The greatest inequalities of wealth are sure to follow the institution of private property; and the wealthier a

country may be, the more striking is the contrast between the wealth and the poverty which have throughout the history of the world accompanied each other. Various schemes have been propounded with the view of causing the wealth which is produced to be distributed more equitably; but if the State confiscated the property of every individual in England to-morrow, accumulated the whole wealth of the country in one great fund, and divided all the land equally amongst the inhabitants, there would soon again be the same inequalities of wealth which exist at the present time. The industrious would soon obtain those portions of wealth which were allotted in this national distribution to those who were indolent, and deficient in industrial capacity. Men, too, are differently endowed by nature, and those who possess strength and ability would soon become wealthy, and those who were less strong and less able would quickly return to comparative poverty. If, therefore, private property is permitted, and if men can indisputably claim as their own the wealth which is distributed to them as the reward of their labour, there must result great inequalities of wealth. And these inequalities will be increased if the rights of private property are extended, for in England not only is the property of an individual secured to him while he is living, but the law interprets with the greatest care his wishes with regard to the disposal of his property after death. An influence is no doubt thus exerted to accumulate large amounts of wealth in a few hands. Many of the great estates of the English aristocracy would long since have been sold and distributed amongst different owners had there been no power of entail.

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*necessarily follow the institution of private property.*

Benevolent men, deeply impressed with the wide-spread poverty which prevails even in the most wealthy countries, have rightly perceived that such great inequalities of wealth must always exist if the privileges of private property are freely permitted; and, consequently, philanthropists have

*Schemes to avoid this inequality; communism.*

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been frequently prompted to advocate schemes of social life in which private property shall not exist, but all the wealth of the community shall be enjoyed in common. This is the fundamental idea which has suggested communism. No philanthropists have ever been more unpopular than the communists; but the antipathy is no doubt due to the popular error that a communist is anxious to limit the rights of private property by means of a wholesale confiscation. Such a charge, however, is extremely unjust. When communism has been attempted, the property upon which the experiment has been made has been fairly and legitimately obtained. The communists may have been mistaken theorists, but let us not deal harshly with them. They have often made noble sacrifices in order to battle against great defects in the state of society; they have sometimes effected great practical good, and the experiments made, even when they have been unsuccessful, are always worthy of attentive reflection.

*Schemes  
proposed by  
Owen and  
Fourier.*

Communism, as first propounded by Owen and Fourier, proposed that a society living together should share all the wealth that was produced. A number of families would, according to this scheme, live together on the same terms as the individual members of a single family. When a family settles in the backwoods of Canada, each member of the family labours on that work to which he or she may be best suited. In such a case the labour of each renders some assistance to all the rest, and then the results of the labour of the whole family are shared in common. Such a society, however, can only be kept together by the strong ties of family affection; and it is manifestly impracticable to maintain a similar union between several distinct families. Although the difficulties which oppose communism may be patent to all, yet it is well to consider some of the evils which communism seeks to remedy. In a state of society like our own, established on the basis of private property, everything tends to heighten the disadvantages

which result from comparative defects in natural endowments. The strong and able are permitted through life to appropriate to themselves all the fruits of their own labour, and the weak and less able are constantly, as it were, borne down in the struggle. But in order to remedy these evils by any form of communism, an amount of virtue is required which is rarely possessed at the present time. The utmost self-denial and the widest charity will also be needed; in fact, men must become a higher order of beings before they will work through life, not for the benefit of themselves, but for the purpose of contributing their labour to the advantage of the community to which they belong. Some of the practical difficulties, however, here suggested were partly obviated in two systems of modified communism which were propounded with great ability by St. Simon and Fourier, who both proposed that the enjoyment of private property should not be altogether forbidden.

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*Difficulties  
in these  
schemes.*

St. Simon's scheme was specially intended to provide some machinery for the arrangement of the labour in a communistic society, for without some such arrangement all would be in confusion; there would be no security that individuals would be employed on the labour for which they were best adapted, and every one would be anxious to avoid all disagreeable work. St. Simon, therefore, proposed that chiefs of the community should be appointed, who should equitably distribute the labour which had to be performed, and should also determine who were to be ordinary labourers, and who were to be skilled artisans. These chiefs, too, not only distributed the labour, but also distributed the results of the labour; they allotted to each individual the share of the wealth to which they considered he was fairly entitled; and the share which an individual thus obtained he was permitted to enjoy as his own private property. But nothing can be more impracticable than this scheme, unless there should happen to be such a marked distinction between the individual members of the

*St. Simon's  
plan for  
avoiding  
these diffi-  
culties.*

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community and its chiefs that the right of the chiefs to dictate and to govern could not be disputed. The Jesuit missionaries established such a community with great success in Paraguay; but between these missionaries and the community they controlled, there was always the difference which distinguishes civilisation from barbarism. But no body of men would ever consent to delegate to any of their fellow-countrymen the powers which should entirely subjugate their own individuality; and St. Simonism, even if it alleviated poverty, would introduce greater evils; for a man would be in a pitiable state of subjection if he was not himself free to choose the labour upon which he should employ his energy.

*Fourier's  
scheme.*

The scheme proposed by Fourier was much more skillfully designed; he intended that each separate community should consist of about 2,000 persons, who should be settled on a square league of ground; he not only permitted private property, but allowed property to be obtained by inheritance. Every member of this community would receive a certain remuneration, even if he were not able to work. Fourier also recognised the claim of capital to be rewarded; the community were combined like a trading company to produce wealth, and after a certain competence, considered necessary to support life, had been allotted to every individual, the remaining produce was divided as a reward for labour, capital, and talent. The administration of this division of the produce was arranged by the heads of the community according to the following plan:—The labourers were divided into three distinct grades, which marked different standards of skill and talent, and the remuneration received by each of these grades varied according to a fixed proportion. The particular grade to which a workman was admitted, was determined by the vote of his fellow-workmen; there was community of labour, but not community of living; it was only proposed, for the sake of economy, that each family should have its

separate apartments in the same block of buildings. The first objection that will probably be made to this scheme is the following: that very soon the industry of a community would be destroyed by its members regarding exertion as unnecessary, if a livelihood was always ensured to those who even did not work. But exactly the same objection may be brought against our poor-law system, and yet the poor-laws, whatever may be the other evils connected with them, cannot be said seriously to impede the industry of the country. Internal dissensions would be the greatest difficulty against which the scheme of Fourier would have to contend; men would be dissatisfied with the grade in which they were placed, and the chiefs of a community would occupy a position most difficult to maintain, for a man is most jealous of any interference with the details of his daily life. Again, if such a community were prosperous; and if wealth were more equally distributed than in the present state of society, all the members of the community would be sufficiently well off to marry at an early age; the result would be, a rapid increase of population; the land possessed by the community would soon become not sufficient to supply the increased population with food; food would become much more expensive, and there would soon arise poverty and distress. We believe that all such schemes of communism must entirely fail if, in a country like our own, they attempt to displace a state of society based on private property. It is, however, advisable to allude to the principal communistic schemes, because, at different times, they have excited great interest, and the speculations of those who propounded those schemes are often deserving of much careful attention. We have pointed out the difficulties which we believe will oppose the success of communism, but we have not done this in a feeling of harsh antagonism. A communistic experiment may be made without inflicting the slightest loss or injury upon any but those who volun-

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*Its chief  
difficulties.*

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tarily take part in it. It is quite possible that such an experiment would dispel many of those objections which beforehand appear most formidable. We ought then to welcome, and not to oppose, such an experiment, for communism has always been mainly prompted by a desire to alleviate the poverty which presses so heavily upon a large portion of mankind, and there is no nobler work to be achieved. A political economist, however, ought not to indulge his fancy with untried and perhaps visionary schemes of social amelioration; it is his business to point out how the lot of mankind may be improved without proposing any fundamental change in the conditions upon which the present state of society is based.



## CHAPTER II.

## THE CLASSES AMONGST WHOM WEALTH IS DISTRIBUTED.

WE have described the requisites of production to be three: land, labour, and capital. Since, therefore, land, labour, and capital are essential to the production of wealth, it is natural to suppose that the wealth which is produced ought to be possessed by those who own the land, labour, and capital which have respectively contributed to its production. The share of wealth which is thus allotted to the possessor of the land is termed rent; the portion allotted to the labourer is termed wages, and the remuneration of the capital is termed profit. The remuneration therefore received in the form of rent, wages, and profits represents the three distinct claims which individuals may have for any wealth which is produced. Having pointed out that wealth is distributed between rent, wages, and profits, we must proceed to determine the laws which regulate the comparative amount of rent, wages, and profits. In different countries these relative amounts vary greatly; for instance, rents are much higher in England than in Australia, and wages are much lower in the one country than in the other. The rate of profit is also much greater in Australia than in England. In Australia, ten per cent. may be obtained on the security of a freehold mortgage, whereas in England a similar investment will not yield more than 5 per cent. Without, therefore, enquiring whether Australia is more productive of wealth than England, it is very important to provide principles which will explain why wealth is so very differently dis-

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CH. II.

*The classes  
amongst  
whom  
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*Their  
shares are  
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rent, wages,  
and profits.*

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tributed in the two countries. Other countries present equally striking points of difference, which will require careful explanation. It will frequently happen not only that there will be those differences which we have just pointed out in the comparative amounts of rent, wages, and profits, but there may also be differences depending on the productiveness of various countries. Thus a certain amount of labour and capital applied to a certain tract of land will raise more wealth in one country than in another, on account of the efficiency of the agents of production; if this were so, rent, wages, and profits might be all higher in the one country than in the other; but even if two countries were in this position, it might still appear, on a comparison of the two countries, that there were considerable variations in the relative amounts of these portions into which the wealth is distributed. For instance, the rents in the one country might exceed those obtained in the other in a greater ratio than the excess of the wages in one country over those of the other.

*These shares are not always payable to different individuals.*

We have shown that wealth is distributed in three shares, namely, rent, wages, and profits: because land, labour, and capital are essential to the production of wealth; and rent, wages, and profits represent the service which has been rendered by each of these agents of production. It must not be supposed that rent, wages, and profits are always received by distinct individuals. In England, as a general rule, there are these three distinct classes of recipients, who are respectively named landlords, labourers, and employers. The landlord seldom supplies either capital or labour; the capital is advanced by the employer; and the labourer has very rarely any capital invested in the industry upon which he may be employed. But the economical condition of England differs, in this respect, more widely from other countries than is usually supposed; in fact, it is rather the exception than the rule, that wealth should be distributed in the form

of rent, wages, and profits, amongst distinct and separate classes of individuals. In the south of France, in Italy, in Flanders, and in other parts of the continent, peasant proprietors occupy a great portion of the land. It is intended to signify, by a peasant proprietor, a man who cultivates a small quantity of land which is his own property; he himself supplies all the labour and capital which are required. In such a case, the produce is not distributed into rent, wages, and profits, for one individual is entitled to all the produce which is raised, since he owns the land, and has also contributed the labour and capital. Although the whole produce is as it were heaped together, without being divided into three portions corresponding to rent, wages, and profits, yet the remuneration obtained by the peasant proprietor is composed of three distinct parts. These are combined, but they may be separately estimated in the following manner. If the land cultivated by the peasant proprietor was not his own property, he would be obliged to pay a certain rent for its use. A portion of the produce, therefore, equal in value to the amount which will be thus paid represents the rent. Again, if the capital employed by the peasant proprietor was borrowed from some one else, a payment must be made for the loan, and therefore a portion of the produce equal in value to such a payment indicates the profit, which is a fair remuneration for the capital which the peasant proprietor employs. Again, the portion of the produce which represents wages may be ascertained by estimating the wages which would have to be paid if the peasant proprietor, instead of working himself, cultivated his land with hired labour. Such an estimate as that we have just indicated is often of great practical importance. The comparative advantages and disadvantages of farming by peasant proprietors have long been keenly disputed. In order to decide this important question, we must pursue the following method. From the whole produce which is raised upon the land

*The peasant proprietor receives all the three shares of the produce of his land.*

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CH. II.

cultivated by a peasant proprietor, there must in the first place be deducted an amount which represents the rent this land would pay; there must also be deducted a certain amount for labour and capital, and if a surplus remains, it will represent the advantage of farming by peasant proprietors. We shall, in another chapter, have occasion to enlarge on this subject.

*Cases of  
India and  
of slave-  
owning  
countries.*

A great portion of the land of India is occupied, not by peasant proprietors, but by peasant cultivators. The land is generally owned by the government. The peasant cultivators often rent from the government a small portion of land, which they can cultivate with their own labour and capital. Sometimes the government grants the land at a fixed rental to individuals who occupy the position of middle-men, and who re-let the land to peasant cultivators. Land which is cultivated by slaves is in an anomalous position, for in this case it would appear that the whole produce is shared between rent and capital, since the slaves must be regarded as a portion of the slave-owner's capital, just in the same manner as the horses which plough our own soil are a portion of an English farmer's capital. The slaves do not receive any wages; they cannot accumulate wealth; they have none of the rights of property. The slaves are fed, it is true; but so are the horses fed. The economical condition of a slave country differs so much from other countries that we must discuss some of the economical aspects of slavery in a separate chapter.

*Manu-  
facturing  
industry.*

The reader may remark that in the general observations made in this chapter on the distribution of wealth we have only considered agricultural produce. We have done this because similar although somewhat more complicated laws regulate the distribution of the wealth which is created by manufacturing industry. All the materials upon which manufacturing industry is employed are products obtained from the land. Thus, wool is an article of agricultural produce. When wool is woven into cloth, it is, of course,

rendered much more valuable. How, then, is this wealth distributed which is added to the wool by manufacturing it into cloth? Wool, and such other raw materials of manufacturing industry, are purchased by the manufacturer, and become a portion of his capital, and the wealth produced by manufacturing industry is finally distributed between capital and labour; in fact, as it were, there are two distributions. The raw produce, or, more correctly, the money, with which the manufacturer purchases this raw produce, is distributed in a similar manner to other agricultural produce; after this raw material has been manufactured, another distribution takes place between the labour and the capital which have been employed in the production of the manufactured commodities.

When it is stated that wealth is distributed in the form of rent, wages, and profits, it must not be supposed that the labour which has directly contributed to the production of the wealth is alone remunerated. Before agricultural produce is brought to the market, the industry of many other labourers may have been called in besides those who are actually working on the farm, all of whom will receive a certain share of the produce in the form of wages. A farmer may employ bargemen to take his wheat by canal to a particular market, but these bargemen must be paid wages, just in the same way as labourers who are actually employed on the farm. Again, a farmer may join with others to pay labourers for keeping the roads in a proper state of repair; from him, also, are levied rates which maintain a police establishment, considered necessary to make property secure. We shall hereafter enquire on whom these burdens fall.

We have now described at sufficient length the classes amongst whom wealth is distributed. The amount which in any particular case the landlord, capitalist, or labourer receives is regulated either by competition or by custom. In almost every case competition and custom exercise a

*Remuneration due to labour when indirectly productive.*

*Relative importance of competition and custom.*

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CH. II.

joint influence; but competition not unfrequently acts so much more powerfully than custom, that it may be accurately regarded as the sole determining cause. A particular custom, however, not unfrequently is strictly adhered to. We cannot remark upon every petty custom which may influence some small trades, but we shall with great care trace the effects of customs more wide and constant in their operation, such, for instance, as those which regulate the rent of land. The metayer rents which exist in many continental countries may be quoted as an example of one of these customs; for where this tenure prevails the rents paid for the use of the land are always equivalent to a fixed portion of the produce. This portion, as the name metayer implies, is generally one-half.

*Beneficial  
effects of  
competition*

It may however be remarked, that as a nation advances in industrial enterprise all her commercial transactions are more completely regulated by competition. There cannot be activity of trade without a keen desire for gain; but such a feeling indicates the spirit of competition, for in business men compete with each other with the view of securing the greatest possible gain. It is, however, important to present competition in a somewhat different aspect; for the manner in which we have described it may very possibly encourage the wide-spread error that with it there is associated something almost criminal. Many who profess to be social philosophers attach to competition the stigma of selfish greed. The poverty of the poor is often attributed to it; but we shall have reason to show that it is no enemy to the working-classes. Without it, their poverty would be rendered doubly severe; for it is an active spirit of competition which maintains the capital from which the wages of the labourers are paid. Competition befriends the working-classes in other respects; it cheapens commodities, and ensures that the maximum of wages shall always be paid. Competition is not confined to one class; it may be as rife amongst buyers as

*upon the  
labouring  
classes.*

amongst sellers, or amongst the employers as amongst the employed. Individuals who have goods to sell are anxious to realise as large profits as possible; but when there is competition, a trader cannot be paid more than what is termed a fair price for his goods, because if he attempts to obtain more than the ordinary price he will be undersold by other traders. When buyers compete with each other they are anxious to secure the greatest gains, or, in other words, to buy upon the best possible terms; and thus, when buyers are each intent on purchasing on the most favourable terms, a commodity is sure to realise what it is worth. It therefore follows that if on the one hand competition prevents a trader obtaining exceptionally high profits; on the other hand, it ensures to him a fair price for his goods. Some, perhaps, may think it unfortunate that employers, stimulated with a desire to realise the largest gains, should seek to engage their labourers on the lowest possible terms. But such conduct on the part of the employers inflicts no injury upon the labourers; for whenever there is activity of competition, an individual manufacturer or trader is as powerless to get labourers to work for him at less than the ordinary wages as he would be to buy cotton at a cheaper rate than his fellow-manufacturers. The price of cotton is maintained because there are those who are anxious to purchase it; the rate of wages is also maintained by those who are anxious to purchase labour. Competition, consequently, exerts no tendency to reduce profits or wages; the tendency is rather one of equalisation.

The influence which would be produced by free competition is often much interfered with by other motives which may be regarded as antagonistic. The whole spirit of English life is so entirely commercial that we experience a difficulty in imagining a people so apathetic to gain that they will not disturb themselves even in the slightest degree in order to realise a pecuniary advantage. It is,

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*Competition varies in intensity in different countries.*

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however, well known that many retail traders in the less frequented towns of Germany seem almost careless about the profits they obtain. But, to an Englishman, making money is one of the most absorbing thoughts of life. A large fortune has no such irresistible charms for a German; his great object is to pass through life with as little exertion as possible.

It has been often remarked that all men are more or less the slaves of habit. Every nation has some customs which become, as it were, engrafted on its existence; customs which in their origin were perhaps purely social have in many cases, after a certain lapse of time, produced effects of great pecuniary consequence. A custom has sometimes gradually assumed the authority of a law, and been made to control the rents which are paid, the profits realised, and the wages received; in this way the consequences which would result if competition freely operated are often interfered with; for men not unfrequently pay the most implicit obedience to a custom, even when they are not bound to do so by law. It has already been stated that, in parts of the Continent, the landlord uniformly receives as a rent one-half the produce of the land; he never thinks of asking more or less, although his land might very likely yield him a larger income if it was let to the tenant who might consent to pay the highest rent for it. In many professions the charges made are absolutely fixed by custom. Lawyers and physicians do not adjust their charges like ordinary traders; the charges are regulated by the custom of the profession. Equally rigid customs affect many classes of labourers; artisans in particular trades must serve a fixed term of apprenticeship, and the wages received are often determined by customs which, though perhaps not so rigidly observed as some others, yet are frequently not easily modified.

*Effects of  
this in the  
case of rent.*

Having, therefore, shown that the distribution of wealth may be primarily classified into rent, wages, and profits, we



shall, in the first place, explain how the amount which is received in the form of rent, wages, and profits is determined when regulated by competition; and we shall then, secondly, proceed to explain the different results which follow, when the distribution of wealth is affected by such customs as those we have just indicated.

## CHAPTER III.

## RENTS AS DETERMINED BY COMPETITION.

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CH. III.

*Historical  
origin of  
rent.*

IF we attempted fully to describe the origin of property in land, we should have to write a general history. Every country has probably been subjugated, and grants of the vanquished territory were the ordinary rewards which the conquering chief bestowed upon his more distinguished followers. Many noble families in this country still retain the lands which their ancestors received from William the Conqueror. Lands obtained by force had to be defended by force; and before law had asserted her supremacy and property was made secure, no baron was able to retain his possessions unless those who lived on his estates were prepared to defend them. There thus arose almost universally some personal relations between landlord and tenant, and the personal services which such a feudal tenure required formed a considerable part of the rent which was paid for the land. As property became secure, and every landlord felt that the power of the State would protect him in all the rights of property, every vestige of these feudal tenures was abolished, and the relation between landlord and tenant has thus become purely commercial. A landlord offers his land to anyone who is willing to take it; he is, of course, anxious to receive the highest rent he can; and he obtains that rent which the tenant who takes it may think the land is worth. What are the principles which regulate the rents which may thus be paid?

*How is the  
rent of a*

We all know that the more fertile land is, the higher will be its rent. We are also aware that the rent which

land yields not only depends upon fertility of soil, but also upon convenience of situation. Land which is remote from towns does not pay so high a rent as land of equal fertility situated at a short distance from some large centre of population. The relative rents, therefore, which are paid for different farms are determined by fertility of soil and by convenience of situation. It will be generally admitted that the value of land depends upon the two causes we have just mentioned, but the important question to answer is this: Can we obtain an index to the amount of rent which land can afford to pay at any particular time? The object we have in view in the present chapter is to supply an answer to this question.

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*given tract  
of land de-  
termined?*

In every country there is the greatest variety in the fertility of the soil; high rents are paid for the use of some land, whereas other land not far distant may be too poor to be cultivated. Let it be supposed that there are two farms which are rented at different rates; the one farm is rented more highly than the other because its soil is more fertile or its situation more convenient, and the difference in the rents paid by these two farms would indicate the pecuniary value of the superior fertility or of the more advantageous situation. There may be another tract of land so poor that, if cultivated at all, it could only bear a nominal rent; for land will only pay a nominal rent when the produce raised from it is no more than sufficient to return the average rate of profit upon the capital spent in its cultivation. If we compare such barren land with land which pays a considerable rent, then, as we have just before remarked, the difference in the pecuniary value of the superior fertility and the other advantages possessed by this better land may be measured by the difference in the rents paid by the good and barren land respectively. But this difference is denoted by the whole rent paid by the good land, since the rent of the poor land is assumed to be merely nominal; or, expressing this in other words, it

*Short state-  
ment of Ri-  
cardo's  
theory of  
rent.*

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CH. III.

may be stated, that the rent of land represents the pecuniary value of the advantages which such land possesses over the worst land in cultivation, the rent which this worse land yields being merely nominal in amount.

The proposition which has just been enunciated, and the simple reasoning by which it has been established, may be regarded as a statement and a proof of Ricardo's celebrated theory of rent. The theory, as we have here expounded it, may perhaps appear so simple, nay, perhaps, so obvious, that our readers will not readily appreciate its importance, nor will they perhaps believe that the theory itself has been warmly controverted by eminent men. It will be advisable to consider the ordinary objections urged against the theory, for we shall be able thus still farther to elucidate it, and these objections will afford an appropriate example of the popular prejudice which so frequently attempts to discredit the conclusions of science. The most recent revival of attacks on Ricardo's theory may be found in some prefatory remarks by Dr. Whewell, prefixed to a 'Collection of Some Fragmentary Tracts on Political Economy, by the late Mr. Jones.' Dr. Whewell objects to Ricardo's theory because the rent of land is, over the greater portion of the world, controlled by custom; and even in England, where land is let by competition, Dr. Whewell maintains that this theory is never employed to settle the rents that should be paid; he therefore makes two specific allegations: his first position is, that the theory is of comparatively little value because of its limited application, and, secondly, that it can be of no practical importance even in the exceptional cases where it may be regarded as capable of a practical application. In this chapter we shall confine our attention to the last of these allegations; the modifications which the theory requires, when rents are fixed by custom and not by competition, will be considered in another chapter. Now no one can reasonably suppose that Ricardo, or any of those who adopt this theory, imagine that a land

*Dr. Whewell's objections to this theory;*

*that it is rarely applicable, and that when applicable it is unimportant.*

steward avails himself of this theory when he is fixing the rent of any particular land. No farmer when about to rent a farm asks himself, What is the value of this farm above the worst land in cultivation? But these considerations do not afford any valid objections against the theory; it might as well be said that the laws of digestion and respiration are not worth explaining, because no one thinks of these laws when he eats or breathes. Although men of business do not use a theory of rent, and may have never heard the name of such a theory, yet unconsciously they follow the theory; and the theory will explain the practical consequences connected with the renting of land, as completely as if all who were engaged in such business transactions were political economists of the true Ricardian type. The point, therefore, to be determined is not whether the theory is used, but whether the theory is universally true when rents are determined by competition. Let us again expound the theory; and we think it will be admitted that each of the positions which it assumes is incontrovertible. It cannot be denied that the land of each country varies so greatly in fertility, and possesses such various advantages of situation, that there always exists some land which is either so barren or so disadvantageously situated that it is just on the margin of cultivation, and can only pay a nominal rent. Land which is more fertile or better cultivated will pay a rent, and such rent must represent the difference in the value between this better land and that land which is so barren that it can only pay a nominal rent. But this value is represented by the difference in the nett produce obtained from the two lands in question, and hence the rent of any particular land may be estimated as the difference between the amount which it produces and the amount of produce raised from the worst land in cultivation. This is the ordinary enunciation of Ricardo's theory; the terms however in which this enunciation is expressed require some explanation. In the first

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CH. III.*The last  
objection  
answered.**Restate-  
ment of the  
theory.*

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place, it should be remarked that nett produce, not gross produce, is meant.

*Illustration  
of the  
theory by  
an example.*

The necessity of making this distinction may be illustrated by an example—for let us suppose that there are two farmers, A and B, and that one of these, A, occupies a much more productive farm than the other, B. Now the gross produce of a farm is the whole produce which is raised from it, without deducting the expenses of cultivation. But the surplus produce which remains to the farmer cannot be ascertained until from this gross produce is deducted all the expenses connected with the farm. A certain sum must also be deducted as interest for the capital invested in the farm, and the farmer should also estimate his own labour of superintendence at a certain pecuniary amount. All these deductions may be regarded as forming in the aggregate the cost of cultivation; and when such deductions have been made, the produce which remains is the nett produce, or, in other words, the nett produce is obtained by deducting the cost of raising the produce from the pecuniary value of this produce. If, therefore, it were ascertained that the nett produce of A's farm exceeded by 1,000*l.* the nett produce of B's farm, it is manifest that A would be able to pay 1,000*l.* more rent than B. If B's farm was so poor that he obtained it at a merely nominal rent, the amount of its nett produce would be also nominal. But it may be said, If such were the case, B would not continue to cultivate the farm; this, however, need not be so, because it has been supposed that the nett produce is that which remains, after every expense connected with the farm has been paid, and after an adequate remuneration has been given to the farmer for his own labour and for the use of his capital; therefore, it would answer B's purpose to cultivate his farm, although the nett produce was merely nominal, if he could obtain the farm at a nominal rent. But, since we have supposed that the nett produce of A's farm exceeds by 1,000*l.* the nett pro-

duce of B's farm, A would be able to pay this 1,000*l.* as rent, and, therefore, the rent of any land is the difference between its nett produce and the nett produce of land which pays a merely nominal rent. Moreover, we shall proceed to show that this amount of rent, namely 1,000*l.*, which from theoretical considerations we have proved that A is able to pay, will be approximately the rent which is actually paid if land is let by open competition. Now, experience proves that men are satisfied to continue in business if they can realise the current rate of profit upon their capital, and also obtain a certain remuneration for their own risk and trouble. Let it be supposed that A's landlord demands from him a rent of 1,000*l.*—this sum representing in value the nett produce of the farm—the profits he obtained upon his farm would still be sufficient to induce him to continue his business. If, however, he were called upon to pay a greater rent than this, say 1,500*l.* a-year, his profits would be so diminished that he would not be able to obtain the same return for his capital as if it were invested in some other business. He would virtually lose by farming, because he could make more of his money if otherwise invested; and no class of traders will continue a business when it becomes comparatively unremunerative. The landlord would therefore be powerless to obtain from A a rent much exceeding 1,000*l.* But there is a further question: What would prevent the farmer paying a less rent than 1,000*l.*, say a rent of 700*l.*? This would certainly be prevented by the competition of others anxious to engage in farming operations. Those who had a practical knowledge of farming would be able to calculate with considerable exactness what would be the nett produce on A's farm, and they would thus know that if A was only paying a rent of 700*l.* a-year, that he was paying 300*l.* a-year less than might be paid, with a realisation of a fair profit to the farmer. Others would come forward and offer a higher rent for the farm, and A would consequently be obliged to leave the farm or else pay a higher rent.

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CH. III.

*The theoretical result coincides with the practical result, assuming freedom of competition.*

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CH. III.

It is, therefore, no exaggeration to say that when land is freely competed for, rents are very approximately adjusted, according to Ricardo's theory. We say "approximately," because there is a certain margin of variation for which allowance ought always to be made. Thus, two land-agents may differently value the nett produce of a farm. A landlord, rather than lose an old tenant, may very often continue to receive less rent from him than a new tenant would be willing to pay; but in such a case competition is to a certain extent interfered with by the feelings which arise from affection and old association. Ricardo's theory is strictly true upon the supposition that there is free competition, and in practical life the results which may be deduced from the theory really occur in proportion to the extent to which competition acts without interference from other disturbing agencies. It is no uncommon thing to say that the sun causes the earth to revolve in an ellipse, and yet the earth never does so move, it oscillates from one side to the other of this ellipse in consequence of the disturbing force of each planet's attraction. For many of the practical purposes of astronomy, it may be stated with sufficient exactness that the orbit of the earth is a true ellipse; and just in a similar way, in a country such as England, competition is so much more powerful than any of the other motives which influence the adjustment of rents, that it will be sufficiently exact to affirm that the rents which are actually paid are those which would be deduced from Ricardo's theory. In some cases, however, other motives which may be regarded as antagonistic to free competition, assume so much importance that they must be specially considered.

*Illustration from astronomy.*

*The 'Margin of cultivation.'*

It will much assist clearness of conception, if we employ some technical language to describe the terms of Ricardo's theory. This theory implies that in any given condition of a country there is some land which will just pay for cultivation if it is let at a nominal rent. Thus, as it were, a *margin of cultivation* is marked, below which the cul-



tivation of land cannot descend, unless some circumstances should occur which should either induce men to be satisfied with smaller profits, or should increase the productiveness of land; it must be borne in mind that there are two ways in which the productiveness of land may be increased; in the first place, a larger demand for agricultural produce may raise its value, and in the second place, agricultural improvements may cause a greater amount of produce to be obtained from the soil. In the example which we have employed, it has been supposed that this margin of cultivation has been denoted by the farm occupied by B; for the produce which is raised from this farm only suffices to pay the expenses of cultivation, and to return B a fair remuneration for his capital and for his personal exertions. Under these conditions this land will pay no rent. Various circumstances, however, may occur which will enable rent to be obtained from this land, or, in other words, would cause the margin of cultivation to descend. Let us, therefore, enquire into some of these circumstances.

It has already been remarked that the current rate of profit which prevails in different countries varies greatly. In Australia ten per cent. can readily be obtained on the security of a freehold mortgage, and a merchant in that country would not think of incurring the risk and trouble of investing his capital in trade, unless he could make a much larger profit than ten per cent., because he could secure this profit without risk or trouble upon a freehold mortgage; therefore, traders in that country would not continue their business unless their profits were very much more than ten per cent. But in England five per cent. can scarcely be obtained on a freehold mortgage, and a trader would be perfectly satisfied with his business if a profit of ten per cent. were realised on the capital invested in it. We shall hereafter enquire into the causes which produce these great variations in the rate of profit in different

*The margin of cultivation depends upon the rate of profit in each country.*

BOOK II.  
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countries. In Holland a still lower rate of profit prevails than in England. Let it be assumed that in this respect England became like Holland, and that the English would be satisfied with a rate of profit so reduced that they would lend money to their government, as the Dutch have done, at the small interest of two per cent. If such a change occurred, men of business in England would be satisfied with a smaller profit than they are now, and would be ready to invest their capital in businesses which would produce them a lower rate of profit. But such a change would at once affect the margin of cultivation. Before the change occurred, no worse land is brought under tillage than that which is cultivated by B, because, although he pays only a nominal rent for his land, yet he cannot do more than realise a certain profit upon his capital, say a profit of ten per cent.; and it is assumed that with a less profit than this, men of business will not be satisfied. But when the change we have supposed has taken place, a lower rate of profit will prevail throughout the country, and men will now be satisfied with a smaller profit. Hence worse land than that which was before cultivated by B, would return sufficient to give that lower rate of profit with which men are now supposed to be satisfied. The margin of cultivation would therefore descend, the land occupied by B would cease to be the worst under cultivation; and this land, instead of paying a nominal rent, would now yield a rent which might be estimated by the difference between its nett produce and the nett produce of the inferior land which has been brought under cultivation in consequence of the reduction in the general rate of profit. It is, therefore, manifest that such a reduction in the general rate of profit would cause the rent of all land to rise. Australia will some day offer a striking example of a rise in the rent of land, caused in the manner we have just described. The great inequality in the rates of profit, current in England and Australia, cannot long continue;

*Case of  
Australia.*

and when profits in Australia are reduced to what they are in England, a vastly increased area of land will be brought under cultivation in Australia; the margin of cultivation will rapidly descend, and the rent of land will be greatly increased.

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We will now discuss some of the other causes which may affect the rent of land. The productiveness of land has already been much increased, and is perhaps destined still farther to be increased by improved implements. Confident predictions have been made by competent persons that steam cultivation will materially diminish the cost of tillage. If this be the case, the nett produce of every farm, as we have defined it, will be greatly increased, and, therefore, rents will as a consequence rise from this diminution in the expense of cultivation. But when rents rise, the margin of cultivation will descend; for if the cost of cultivation is diminished by steam machinery, land may be profitably cultivated which before would not pay the expenses of tillage. The farmers, therefore, will ultimately receive no special advantage from the introduction of improvements in the method of cultivation. Temporarily they may be benefited; for those who first avail themselves of the improved machinery may for a long time continue to derive an important advantage, because, until the machinery has been generally introduced, rents will not be raised. Ultimately, however, the whole of the advantage will be absorbed by the landlords; for if the expenses of cultivation are diminished, the farmers will be able to pay a higher rent, and the competition of capital will render it impossible to resist the increase of rent. We have purposely said that the landlords, and not the farmers, will derive a *special* advantage, because, in one sense, the farmers, conjointly with every other class in the community, will be benefited, since, if the expenses of cultivation are diminished, the cost of production is diminished, and, therefore, food will be cheapened. The effect

Rent is  
affected by  
improved  
methods of  
cultivation.

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which may be thus produced by cheapening food, at once suggests questions of the greatest importance. These, however, we must reserve until we treat of exchange, in the next division of the subject.

*These conclusions will require further consideration when we come to speak of value.*

We will here take the opportunity of remarking that we have as yet said nothing about the value of those shares into which any wealth which is produced may be distributed. All such questions with regard to value cannot be appropriately considered until we treat of exchange. When, therefore, in this chapter we have alluded to particular circumstances which will increase rents, we attribute the increase not to any rise in the price of agricultural produce, but we refer the increased rent entirely to a different distribution of the produce of the land, more advantageous to the landlord. Thus the distribution will be changed in the following manner, when the use of improved implements diminishes the expense of cultivation: The profits of the farmer and the wages of his labourers will remain as they were before; but the landlord will receive, in addition to the rent which is previously paid to him, all that is saved in the expense of cultivation. It is very important to bear this in mind, because a confusion may arise very embarrassing to the reader; for in popular phraseology rents are often said to rise without any alteration in the relative amounts received by those classes amongst whom the produce of the land may be distributed. If, for example, a landlord's rent is a certain portion of the produce of the land, then his rent is said to rise if anything should occur to increase the value of this produce. Before the Tithe Commutation Act was passed, the tithe was a rent-charge amounting to one-tenth of the produce. If it had not been for this commutation, tithes would be considered at the present day to be increased by two distinct causes; for, in the first place, since more produce is now obtained from the land, the tithe would be increased in quantity; and, secondly, even if the tithe was not increased in quantity,

its amount would be increased if there had been an augmentation in the value of agricultural produce. But we must postpone considering an increase of rent which is represented, not by a larger amount of produce, but by a rise in the price of this produce; for when discussing the distribution of wealth we must suppose that rent, profits, and wages are received in kind. Distribution is concerned with the laws which regulate the absolute and relative magnitude of those portions into which wealth is distributed; and it belongs to the subject of exchange to examine the causes which determine the value of an individual's share of the profits derived from some industrial source, such as a farm or manufactory.

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Returning, now, to those causes which affect rents in the sense we have just described, it becomes obvious, after what we have stated with regard to improved machinery, that rents must be increased by any circumstance which diminishes the expense of cultivation; and, conversely, rents must be diminished, if the expenses of cultivation should be augmented. Such an augmentation will, in all probability, be caused in a few years by a rise in the wages of agricultural labourers. Agricultural labourers in this country have long been worse paid than any other labourers. Each year, however, many influences are brought more powerfully into operation, which will tend to remove such inequalities in the remuneration of different classes of labourers. Increased education will make those employed in agriculture more keenly desirous to sell their labour on the best possible terms. The rapid extension of our railway system enables labourers to pass easily from one district to another. Emigration has already materially raised the general rate of wages throughout the country; and the influence thus produced by emigration is probably destined to be much more strikingly exhibited. But if labourers receive higher wages, or, in other words, an increased share of the aggregate

*Causes  
tending to  
raise or  
lower rents.*

*Rise of  
wages of  
agricul-  
tural la-  
bourers.*

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produce, there will be a smaller remainder left to be distributed between rent and profits. If the rise in wages is accompanied with no reduction in the general rate of profit throughout the country, then rents must suffer. This is sure to be the case if the rise in wages is not general, but is confined to agricultural labourers, because, under such a supposition, nothing would have occurred to affect the general rate of profit in other businesses, and, therefore, the profits made by farmers cannot continue to be exceptionally lower than the profits realised in other trades. But the theory of Ricardo supplies a test which will indicate how rents are affected by any change in the economical condition of the country. This theory defines the rent of any particular land to be the difference between its produce and the produce of the worst land in cultivation. Therefore, the important thing to ascertain is, whether the margin of cultivation has or has not descended. If, for instance, the wages of agricultural labourers were materially to increase, without any alteration in the value of agricultural produce, and without the introduction of improved methods of tillage, much of the land which is now cultivated would cease to return any profit; the margin of cultivation would ascend, and there would be a general fall in rents. In this sense, therefore, the interest of the landlord is opposed to that of the labourer. Again, if the general rate of profit throughout the country was to rise, the profit realised by farmers would also rise. The poorest land in cultivation would not yield to the farmer this increased rate of profit. This worst land, therefore, would cease to be cultivated, the margin of cultivation would ascend, and in this case, also, the rent of land would be reduced. A rise, therefore, in the rate of profit, or in the rate of wages, unless accompanied by some counter-acting circumstances, will cause rents to decline. Hence, it would appear that the interest of the landlord is opposed to that of the labourer and the capitalist. This conclusion

*In what sense the interests of the labourer and landlord are opposed to each other.*

has been the source of much of the opposition expressed towards Ricardo's theory. But it is difficult to understand why such a conclusion should be regarded as so very pernicious. If the produce of the land is distributed amongst rent, wages, and profits, it is obvious that the more there is allotted to labour the less there will remain to be appropriated as rent. The opposition of interest intended to be expressed by Ricardo, does not imply that the interests of any one class are opposed to the general welfare of the country, for all the three classes may participate in any general improvement. Thus, if an increased quantity of produce is obtained from the land, there will be more to be distributed, and rents, wages, and profits may be simultaneously increased. The opposition of interests which we have spoken of only refers to variations in the relative magnitude of those portions or shares into which wealth is distributed.

The rent of land is, however, far more powerfully affected by an increase or decrease of population than by any other circumstances. Within the last twenty years the population of Great Britain has increased 25 per cent. This implies that at least 25 per cent. more food is required. Let us for a moment consider what would occur if this increased supply of food had been obtained from our own soil. In the first place, more land must be brought under cultivation; the farmer would be remunerated for cultivating his worse land by a rise in the price of food. The margin of cultivation would thus be greatly lowered, the rent of all land would therefore be greatly increased, the farmers would be able to pay these higher rents, because the price of agricultural produce had risen. It therefore appears that a very considerable rise, both in the rent of land and in the price of food, must have inevitably accompanied this increase in our population. The rise in the rent of land would, under such circumstances, be assisted by two distinct causes: in the first place, rents if received in kind would be increased, because the margin of culti-

*How the increase of population affects rents.*

vation has descended, and the produce thus received as rent would have been rendered more valuable in consequence of the rise in the price of food. But this rise in rent and in the price of food has been, to a great extent, prevented, because a considerable portion of the additional food required for the increasing population of this country has been supplied by the vast importations of corn which have taken place since the removal of protective duties. There has, during the last ten years, been an average annual importation of 5,000,000 quarters of grain. Although rents would be far higher than they are now if we had been restricted to our own soil for the additional supplies of food required, yet if we now travel through the country, we observe tracts of highly-cultivated land which a few years since were open downs. The whole of Salisbury Plain is now covered with comparatively luxuriant crops; but the cultivation of such land affords most unmistakable evidence of the rise in the rent of land which has occurred during the last few years.

*Part of the actual rent paid may be considered as profit on capital.*

The remarks which have been made in this chapter on the subject of rent would seem to indicate that the rent of any particular soil depends upon its natural fertility. But the value of land is rarely due entirely to its natural fertility; little of the land which is now cultivated would be so productive as it is, unless capital had been spent upon it. The fens of Lincolnshire and Cambridgeshire were once worthless swamps, but drainage has now converted these fens into most valuable arable land. In such a case, it would appear that the whole rent which is paid is almost entirely due to the capital which has been spent on these improvements. Hence this important question is suggested: Ought we to consider as rent the additional price which is paid for the use of land when its productiveness is increased by an outlay of capital on drainage and other such improvements? The rent of land whose fertility has been artificially created differs in no single respect from



the rent of land whose fertility has been chiefly derived from unassisted nature; and the amount of rent which is paid in these two cases is determined by the same causes. The farmer who cultivates a reclaimed fen, can afford to pay in rent just so much produce as is left to him, after all the expenses of his farm have been paid, and he has himself been reimbursed for his own labour and capital. He pays rent because he is allowed to cultivate a productive soil, and it is a matter of no concern to him whether the productiveness of the soil is due to natural or artificial causes. A portion of rent, therefore, may generally be considered to represent a return to capital which has been spent in improving the land. And thus rent, though generally paid in one sum to the same individual, is almost invariably made up of two distinct components which represent different claims, or, perhaps, more properly, different kinds of ownership in the soil. This may be readily shown by an example of frequent occurrence. By a recent Act of Parliament, the owner of even a life-interest in landed property is enabled to borrow money to be spent in drainage or other permanent improvements, such as the construction of better farm-buildings. The company or society who lends the money is guaranteed repayment by a rent-charge upon the land for a certain number of years. This rent-charge at the present time is usually 6 per cent. of the money lent, to be annually paid for twenty-two years. The tenants, who receive the first immediate advantages of these improvements, gladly allow this rent-charge to be added to the rents which they previously paid; and, in this manner, their rents are composed of two portions, one of which is paid for the use of the land, and the other is paid as a return to the capital which has been expended in improvements. A nobleman, whose family have been long embarrassed, and whose estates have been consequently much neglected, has, in this manner, within the last few years, spent 70,000*l.* in improving his estates. The whole of this sum has been borrowed upon the conditions above

*Money borrowed for permanent improvements.*

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described. The advantages which have resulted from this expenditure have been so great and so immediate that the tenants can afford to have their rents increased by a much greater amount than the rent-charge of 6 per cent., guaranteed to the company which has lent the money. The landlord therefore does not, even in the first instance, incur any pecuniary sacrifice for these improvements, but, on the contrary, he at once obtains an increase of rent, and after the twenty-two years have elapsed he is able to appropriate to himself the entire benefits which arise from this improvement in his land. It seems difficult to explain why landlords who have not capital of their own do not more largely avail themselves of the great facilities which are offered to them for obtaining the requisite capital to improve their estates. In no epoch, probably, has the land of England been so greatly improved as during the last few years; but, nevertheless, in every county of England many important agricultural improvements, such as drainage and the construction of better farm buildings, still require the expenditure of a considerable amount of capital, to which not only a large prospective but even a large immediate profit would be returned.

*Rent is not an element of the price of agricultural produce.*

From Ricardo's theory of rent there can be deduced the very important proposition, that rent is not an element of the cost of obtaining agricultural produce. A no less eminent writer than the late Mr. Buckle has assured his readers that the proposition just stated can only be grasped by a comprehensive thinker; we, however, believe that it may be made very intelligible by a simple exposition. If rent is not an element of cost of production, food would be no cheaper if all land was arbitrarily made rent free. Let us, therefore, inquire if this would be the case. We have frequently stated in this chapter that there is always some land in cultivation so poor that it can only afford to pay a nominal rent, the produce it yields being no more than sufficient to reimburse the expenses of cultivation.

*Simple proof of*

Let us now suppose that all land is made rent free by

an arbitrary edict of the Government. Such an act of spoliation, although it would unjustly interfere with the rights of property, would not cause any diminution in the consumption of food; the same quantity of agricultural produce would be required as before; the same area of land would therefore have to be cultivated. That land would consequently still require to be tilled which previously only paid a nominal rent; but if food was rendered cheaper, by making land rent free, this land, which before only paid a nominal rent, would be cultivated at a loss. No person, however, will continue to apply his labour and capital if he does not obtain in return the ordinary rate of profit, and, therefore, if food became cheaper, such land as we have just described would cease to be cultivated; but this cannot be, because the demand of the country for food is such that the produce which this land yields cannot be dispensed with. It is therefore manifest that food would not become cheaper, even if land were made rent free. Rent consequently is not an element of the cost of production. The value of food is, *cæteris paribus*, determined by the demand for it, because the demand for food regulates the margin of cultivation; and although the payment of rent does not influence the cost of producing food, yet the amount of rent paid indicates the position of the margin of cultivation, and the value of food must rise as this margin of cultivation descends.

We have already remarked that Ricardo's theory implies activity of competition. In many countries, however, this activity of competition does not exist, but is interfered with by various customs. We shall in succeeding chapters describe many of the various land tenures which exist in different countries, and we shall be thus led to consider whether the conclusions deduced from Ricardo's theory apply to those countries, such as India, where the tenure and the rent of land are influenced by various causes besides activity of competition.

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this proposition.

Activity of competition is implied in the above.

## CHAPTER IV.

## ON WAGES.

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Wages

IT has been impossible to expound the general laws of rent without mentioning the other two portions into which wealth is distributed; namely, wages and profits. But, as yet, we have not examined the laws which regulate wages and profits; it will, therefore, be convenient in the first place to devote a chapter to the subject of wages; we shall then consider profits; and when we have thus completed an examination of the laws concerning rent, wages, and profits, we shall be in a position more clearly to understand some special but important questions concerning the distribution of wealth.

*depend upon the relative rates of increase of capital and population,*

In previous chapters we have been careful to show that capital is the fund from which labour is remunerated. It thus becomes obvious that wages in the aggregate depend upon a ratio between capital and population. If the number of the labouring population remains stationary, wages cannot rise, unless the capital of the country is increased; but if, on the other hand, there is an increase in the number of the labouring population unaccompanied by any augmentation in the capital of the country, then wages must decline. The truths which have been just stated are in popular language expressed somewhat differently, for wages are commonly said to be regulated by supply and demand. This we shall be able to show means the same thing, but 'supply and demand' is one of those hackneyed phrases which are not unfrequently employed by those

who have no accurate knowledge of political economy. Let us, in the first place, inquire what is the meaning of the expression 'demand for labour' and 'supply of labour'? A demand for labour can only be caused by those who have the means of remunerating the labourer. But the remuneration which is intended to be given to the labourer is capital, and therefore those only can exert a demand for labour who can apply capital for the remuneration of labour, and the greater is the amount of capital to be applied in this manner, the greater will be the demand for labour; it therefore appears that the expression 'demand for labour' may be replaced by some such phrase as 'capital seeking to be devoted to the employment of labour.' Again, supply of labour may be estimated by the number of those who are anxious to labour, and consequently an increase in the supply of labour is equivalent in its meaning to an increase in the number of the labouring population. When, therefore, we say that wages depend on the ratio between capital and population, we state the same principle as those who affirm that wages are regulated by demand and supply. This latter mode of expressing the principle is not incorrect, but the words demand and supply convey no definite meaning, whereas every law concerning wages must be deduced from the fundamental conception of a ratio between capital and population.

*which is equivalent to saying that they depend upon supply and demand.*

The law which we have just stated goes no farther than to indicate the source from which wages are supplied; this law affirms that wages cannot generally rise or fall, unless the capital or population of the country is either increased or decreased. This law also gives us a knowledge of the only means by which the material condition of the labouring classes may be improved. Few questions have a more practical or pressing importance. The middle and upper classes profess a philanthropic feeling towards the poorer, and express an anxious hope that their poverty

*Effect of this upon the condition of the labouring classes.*

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CH. IV.

may be alleviated. Let us therefore turn our sympathy to some practical purpose, and let us endeavour to understand the true causes of poverty. If we regret that an agricultural labourer should only earn nine shillings a week, let us take care clearly to comprehend the reason why his wages are so low. In no country has capital increased so rapidly as it has in England during the last few years; the extension of our commerce and the increase of our national wealth have been quite unprecedented. Numberless statistics may be quoted, each of which would prove a wondrous development of our commerce and trade. In twelve years, from 1849 to 1861, our exports advanced from 60,000,000*l.* to 120,000,000*l.*, and the import of cotton has in the same period nearly doubled. But this increase of national prosperity has as yet made but little impression upon the condition of the labouring classes. This is a melancholy and a surprising fact. Those who regret the circumstance, but do not understand its true cause, too frequently indulge in vague denunciations against the avarice of the employers, and the tyranny of competition. But the employers are not to blame, and it has been shown in a previous chapter that competition secures to the workman the best possible price for his labour. The increase of national wealth has been accompanied by such a large accumulation of capital that there has been no deficiency in the demand for labour. If, therefore, wages have not advanced, the supply of labour must have kept pace with the demand for labour, or, in other words, the rise of wages which would have resulted from an increase of the national capital has been counteracted by a corresponding increase in the number of the labouring population. If, therefore, wages do not rise when the wealth and capital of the country increase, it is solely and entirely because an increase of population causes a greater supply of labour. The labourers cannot fully participate in the advantages of a growing national prosperity, unless population is in

*Why the increase of wealth has not improved their condition.*

some way or other restrained. Malthus was the first to enunciate this truth in his celebrated Essay on population—a work which gave a new aspect to the speculations of political economists. In this essay the restraints upon population are classified as positive and preventive checks. Positive checks on population are, according to Malthus, causes over which an individual has no control, such as the mortality arising from famine, disease, or the ravages of war. In some countries, however, the great majority of the people are restrained from early marriages by feelings of prudence, and then Malthus considers that the population is kept down by a preventive check. Malthus examines the social condition of each country, with the view of ascertaining whether preventive or positive checks are most efficient in restraining their population. The description which from this point of view he gives of the most important countries may be still read with great interest. His entire essay is most suggestive, and the sixty years which have elapsed since its first appearance have little detracted from its value or importance.

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*Malthus's  
Essay on  
Popula-  
tion.*

It is quite evident that population must be restrained by some checks, for if all married when they arrived at maturity, this earth would not merely fail to feed, but would scarcely even offer standing-room for the countless millions that might be born. This may be exemplified by an illustration from natural history: 'the elephant is reckoned the slowest breeder of all known animals, and I have taken some pains to estimate its probable minimum rate of increase. It will be under the mark to assume that it breeds when thirty years old, and goes on breeding until ninety years old, bringing forth three pairs of young in this interval. If this be so, at the end of the fifth century there would be alive fifteen million elephants, descended from the first pair\*.' The population of a country, under favourable circumstances, has been known to double in a period of

*Necessity of  
some checks  
to popula-  
tion*

\* Darwin, 'Origin of Species.'

BOOK II.  
CH. IV.

twenty years, and so great is the power of man's multiplication, that the world might soon be far more densely populated than it is now, by the progeny of a single pair, if none of those positive or preventive checks which act in various countries were brought into operation. It is the opinion of Malthus, that throughout the East, and formerly in most European countries, a population has been restrained by such positive checks as famines, destructive wars, negligent rearing of children, and the unskilful treatment of terrible diseases, not unfrequently caused by an insufficiency of food, and which often appeared in the form of periodic plagues. In almost every country these checks still operate, but with much less powerful effect. In England, for instance, there is a great mortality amongst children, which is no doubt chiefly due to neglect on the part of the parents. In many districts one half of the children belonging to the poorer classes die before they are five years old. In some European countries, population is restrained by law. In Norway, no couple is allowed to marry until it can be proved that the man and wife possess jointly a certain amount of money. In other countries, prudential feelings, which almost amount to a general custom, prevent early marriages, and in this manner restrain population. In some of the Swiss cantons, a man rarely marries before he is thirty, nor does a woman marry before she is five-and-twenty.

*in all, except a few exceptional cases.*

In some exceptional cases, the condition of the labouring classes may for a time suffer no deterioration, although population should be unrestrained by either positive or preventive checks. In a new colony with a healthy climate, and a great breadth of fertile and unoccupied land, population may for a time continue to expand with scarcely any let or hindrance; but in a country like England, if the population were not restrained by some checks, the labour market would soon become so redundant that the labourers would be reduced to abject poverty and misery. We can-



not expect that capital will in this country be more rapidly accumulated than it has been within the last few years; the wages of labourers, therefore, cannot rise, unless population is restrained even more than it has been. It may seem cruel to anticipate that the checks upon population will become more effective; because in this country population is perhaps chiefly restrained by causes which either imply human suffering, or at least grave imperfections in our social system. The middle and upper classes display, as a general rule, considerable prudence: they do not often marry unless they have a reasonable prospect of being able to bring up a family in a state of social comfort, similar to that to which they themselves have been accustomed. But the labourers, who form the majority of the population, are but slightly influenced by such cautious foresight. Even a slight temporary improvement in their material prosperity acts as a powerful impulse to induce them to marry; for it is a demonstrated statistical fact, that the number of marriages invariably increases with the decline in the price of bread. In the case of the labouring classes, prudence is replaced by other restraints upon population, which indicate a state of society deeply to be deplored. Of the children belonging to the upper and middle classes, only twenty per cent. die before the age of five. This proportion is more than doubled in the case of children belonging to the labouring classes. This great mortality amongst poor children is caused by neglect, by want of proper food; sometimes the parents are too poor to rear their children properly, but too frequently the premature death of an infant is due to the parents' intemperance. If, therefore, the children of the poor had during the last ten years been treated with proper care, there would be in this country, at the present time, 1,150,000 more children than are now living. In this manner may the supply of labour be vastly increased. And yet, if we place any faith in the progressive improvement of the people, we must believe

*Prudential  
checks to  
population*

*are not suf-  
ficiently  
strong in  
the labour-  
ing classes.*

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CH. IV.

that the check upon population we have just noticed, so replete with misery, and associated with so much human depravity, will be gradually weakened. But if this be so, then it will be most important that the labouring classes should, with regard to marriage, exhibit some prudence; for if this is not done, when these other checks upon population are removed, the labour-market will be so over-supplied, that the material condition of the labourer must rapidly deteriorate. We have yet, however, to notice one check upon population, which has already relieved us of much surplus labour, and which has been peculiarly beneficial in all its other consequences.

*Emigration  
as a check  
to popula-  
tion.*

During the last few years, there has been a large emigration from Great Britain to the United States, and to our various colonies. Between the years 1848 and 1864 the total number of emigrants from the United Kingdom has been 3,350,000. Had there not been this emigration, these three millions would have remained at home to have shared the wage-fund with other labourers of the country, and wages would have been greatly reduced. But this consideration suggests only a very small portion of the advantage which has resulted from this emigration. Our emigrants leave an over-supplied labour-market, and settle in countries where great natural resources have been undeveloped, and where vast tracts of fertile land have been untilled, because no adequate supply of labour has been forthcoming. The returns to labour applied under such favourable conditions are of course very great: wealth is quickly created, and tracts of land thus peopled by our emigrants rapidly become prosperous commercial communities. Many of the nations which have been, as it were, created by our emigration, afford the mother-country a supply of cheap food, and thus confer upon her a most important benefit. This naturally leads us to consider other causes which produce a deterioration in the condition of the poor, and which also impede prosperity, when, in a

thickly-peopled country like our own, population is not either restrained, or else relieved by some such agency as emigration. BOOK II.  
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We have frequently stated that agricultural produce must rise in price if it becomes necessary to resort to less fertile land in order to obtain food for an increasing population. Rent, as we have already demonstrated, does not form a part of the cost of producing food, for its price is regulated by the expense of obtaining produce from land which is so poor that it can only pay a nominal rent. If, therefore, our population rapidly advanced, and our demand for food was so great that we were compelled to resort to land far too barren to be now cultivated, under such circumstances food would become much more expensive. It must be always borne most carefully in mind that food must rise in price as population increases, unless supplies of cheap food are imported from other countries, or agricultural improvements render our own soil more productive. If, therefore, emigration does not relieve the labour-market of its surplus population, the condition of the labourer will be injuriously affected in two distinct ways: in the first place, his money-wages will diminish, because there will be a greater number amongst whom to distribute the wage-fund; and secondly, the necessaries of life will rise in price, because there will be a greater demand for food. If our constantly-increasing population had to be supplied with food entirely from our own soil, it is doubtful whether a sufficient quantity of even the necessaries of life could be obtained; but even if there was not an absolute dearth of provisions, food would under such circumstances enormously rise in price, and the greatest distress amongst the labouring classes would be sure to ensue. Some articles of food cannot be so easily imported as others. The expense of sending corn from even the most remote parts of the earth is, comparatively speaking, so trifling, that large quantities of wheat are now annually imported into Europe from California.

*The tendency of food to become dearer as population advances, injures the labourer.*

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CH. IV.

*This evil is greatly obviated by emigration.*

The remarks which we have just made upon the tendency of food to become dearer as population advances, enable us to attribute another most beneficial influence to emigration; for not only is the home labour-market relieved by emigration, but it also promotes the development of countries to which we must chiefly look for supplies of cheap food. Emigration, therefore, is not only a very efficient check upon population, but it is in every respect most beneficial in its results; it causes wages to rise, or rather prevents their fall in those countries from which emigration takes place, and by providing supplies of cheap food, it indirectly confers upon the labouring classes another most important advantage. So vast are the tracts of unoccupied fertile land, upon which our countrymen might with advantage settle, that we may perhaps consider emigration to be yet only in its infancy. The rise of Australia has been most rapid, but she is still most thinly populated. It has been calculated that Australia possesses enough fertile land to maintain in comfort a population of 100,000,000. The Cape of Good Hope is only beginning to be colonised, and in North and South America there are still many large tracts of land scarcely peopled, yet possessing great natural advantages, and well suited for European emigrants. It is often said that emigration must, after a time, cease to be a remedy for over-population. Some of the facts we have already mentioned show that population has, under favourable conditions, such a high rate of geometrical increase, that our colonies might, before a long period has elapsed, become as thickly peopled as the mother-country. Emigration would then no longer afford relief. This, as a mere theoretical anticipation, cannot be denied; but the day when the earth shall become thus densely populated is, we believe, too remote for us to feel any concern about the difficulties which will result from such an occurrence.

We have now endeavoured to point out that the average

rate of wages received throughout the country depends upon a ratio between capital and the number of the labouring population. The capacity of the labouring population to increase is so great, that if some powerful checks are not placed upon population, the condition of the labourer must rapidly deteriorate, for the greatest accumulation of capital that has ever occurred would entirely fail to create a demand for labour in any way proportionate to the supply of labour which would be forthcoming, if man's power of multiplying his species was not restrained by some very efficient causes. We have, therefore, thought it important to indicate some of the chief checks upon population which act in different countries. When referring to the checks which operate in our own country, we have remarked upon the great benefits which result from emigration; we have attributed special advantages to emigration, because it is often instrumental in providing us with supplies of cheap food, and this is all important to a country already thickly peopled, and whose population is rapidly advancing. For if a country in the position of England was restricted to its own soil for food, the first necessities of life would very soon reach a famine price; in fact, it is no exaggeration to assert that England's future advance in population and prosperity will depend upon the extent to which she will be able to obtain cheap food from other countries.

It still remains for us to explain many important questions connected with wages; such, for instance, as the different rates of remuneration received in different employments. For not only are higher wages paid in some trades than in others, but it may be frequently observed that the wages of one particular class of workmen may rise or fall to a very considerable extent without any variation at the same time taking place in the wages of other employments. Special circumstances are connected with various employments, which must have the effect of

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*Variation  
of wages in  
different  
employ-  
ments.*

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CH. IV.

producing permanent variations in the wages paid in different trades. Adam Smith divides the causes which produce different rates of wages into the five following classes:—

*Causes as-  
signed by  
Adam  
Smith.*

1st. The agreeableness or disagreeableness of the employments themselves.

2ndly. The easiness and cheapness or the difficulty and expense of learning them.

3rdly. The constancy or inconstancy of employment in them.

4thly. The small or great trust which must be reposed in those who exercise them; and

5thly. The probability or improbability of success in them.

*Agreeable-  
ness of the  
employ-  
ment.*

Examples of the effects which may be attributed to each of these different kinds of causes will readily suggest themselves. A collier proverbially earns higher wages than even many skilled workmen in his own district. A collier, not working so many hours in a day, will often earn more wages than a carpenter. But coal mining is not only a very laborious, but a very dangerous occupation. The work is dirty: a man has to labour in the dark, and often in very bad air. When all these circumstances are considered, it is easy to understand that men would not work in coal mines unless they were induced to do so by very high wages.

*Difficulty  
of learning  
it.*

The second circumstance mentioned by Adam Smith probably produces a greater influence on wages. If a trade is difficult to learn, an apprenticeship fee has often to be paid as a premium for the necessary instruction. This, in the first place, greatly limits the number of those who can be brought up to the trade, for comparatively few labourers, even if they were inclined to do so, have the means to pay such a fee for any of their children; but the apprenticeship premium represents only a very small portion of the cost a parent must bear if he brings a child up

to a skilled trade. An apprentice not unfrequently works for four or five years without receiving any wages at all, and therefore such a youth, until perhaps he is twenty years of age, must be kept by his parents. If, however, he had entered upon some ordinary, unskilled employment, he would have been receiving increasing wages from the time he first began to work. Every skilled workman has had a certain amount of capital spent in acquiring the skill his trade requires, and this capital would of course not be spent unless an ample future return was given to it in the form of higher wages. The difference in the wages of skilled and unskilled labour represents a large return to the capital which has been spent in the skilled workman's education. This must be so, whilst so few of our workmen have either the foresight or the means to bring their children up to some skilled employment. Skilled workmen therefore possess, as it were, the advantages of a monopoly. In some skilled employments a monopoly is created by nature, for the skill required is so great that few have the natural capacity ever to acquire it. Thus, as we have previously mentioned, there is a very limited number, amongst all the watchmakers in England, who can ever acquire that delicate accuracy of workmanship which is needed in the construction of a chronometer. Such workmen, therefore, are endowed with a natural monopoly, and they can, within certain limits, obtain almost as high wages as they choose to demand.

The third circumstance mentioned by Adam Smith—*Constancy of the employment.*—namely, the constancy or inconstancy of employment—he very aptly exemplifies by the case of builders' operatives. 'In the greater part of manufactures, a journeyman may be pretty sure of employment almost every day in the year that he is able to work. A mason or bricklayer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable,

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in consequence, to be frequently without any work. What he earns, therefore, while he is employed, must not only maintain him when he is idle, but make him some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion. When the computed earnings of the greater part of manufacturing operatives, accordingly, are nearly upon a level with the day wages of common labourers, those of masons and bricklayers are generally from one half more to double those wages.'

*Amount of  
trust re-  
posed in the  
labourers.*

With regard to the fourth cause mentioned by Adam Smith, it may be remarked that, when a great amount of trust is requisite to be reposed in a labourer, his wages are of course higher. A labourer, when he has demonstrated that he possesses such qualities as will cause his employer to place confidence in him, can of course claim higher wages, and the employer who gives these higher wages is abundantly recompensed. A jeweller has to intrust valuable property to his workmen, and if confidence could not be reposed in these workmen, their employer would be at a considerable outlay in order to have them constantly watched, and he would be likewise subjected to various other losses and annoyances. A considerable portion of the cost of any commodity does not arise from the labour employed in actually producing it, but is caused by the expense of superintending and watching this labour. An employer might dispense with such an outlay if he felt assured that his workmen could be trusted; and such an employer would readily devote a part of the expense thus saved to raise the wages of those he employed.

*Probability  
of success.*

The following is the fifth and last cause enumerated by Adam Smith. 'The wages of labour in different employments vary according to the probability or improbability of success in them.' This circumstance but very slightly affects those who are usually considered to belong to the wage-receiving class. If a youth is brought up as a shoe-



maker, it is almost certain that he will acquire the art of shoemaking. In some of the liberal professions, however, such as the law and medicine, the large remuneration received by a few may perhaps be considered to be partly counterbalanced by the number of those who fail to earn from these professions a competency in any degree proportioned to the expense which their professional education has involved. But we think Adam Smith, even in the case of the liberal professions, has attributed too much influence to the cause above mentioned. The uncertainty of success in such a profession as the bar is not due to a difficulty of ascertaining beforehand whether an individual possesses those talents which will fit him for such a profession. Success is uncertain, because it depends on extraneous conditions which an individual cannot control. A barrister may have brilliant abilities, but unless he happens to be acquainted with a solicitor he may wait for years without a brief. In many professions, too, although the fees paid may appear to be high, yet the average earnings are extremely small. Moreover, in the choice of a profession other motives act more powerfully than a prospect of gain: a profession gives position in society, and men of property are often happier with an occupation than without one. When therefore any question is considered relating to wages, or to the profits of trade, a distinction ought to be made between the liberal professions and other occupations which are resorted to almost entirely for the purpose of gain. A clergyman who is only obtaining 90*l.* a year, may feel assured that if he was engaged in some other occupation his income would be far larger; but such a man may be prompted by a high sense of duty to enter the Church, and therefore he chooses his profession quite independently of pecuniary considerations. With regard to trade, no such feelings can exercise any practical influence; no one can feel that it is his duty to be a grocer rather than a baker; a man usually chooses the trade or employment to which he has

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*Effect of  
this in the  
liberal pro-  
fessions.*

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been brought up, or the one in which he thinks he can earn the most money with the most pleasure, or rather the least inconvenience to himself.

*Other circumstances produce a variation of wages.*

*They vary in different districts.*

We have now separately remarked upon the five classes of circumstances to which Adam Smith attributes the different wages paid in different employments. Considerable influence is no doubt produced by each of these classes of circumstances; but wages are perhaps more affected by other causes which are much less frequently considered. For instance, a fact with regard to wages must have been noticed by even the most casual observer, since not only do the wages of different employments vary, but there are great variations in the wages obtained in the same employment in different parts of the country; it may moreover be remarked that variations of this kind are particularly striking with regard to many unskilled employments. During the winter months an ordinary agricultural labourer in Yorkshire earns thirteen shillings a week. The wages of a Wiltshire or Dorsetshire labourer doing the same kind of work, and working a similar number of hours, are only nine shillings a week. This great difference in wages is not counterbalanced by other considerations; living is not more expensive in Yorkshire than in Dorsetshire, and the Dorsetshire labourer does not enjoy any particular advantages or privileges which are denied to the Yorkshire labourer. This inequality in wages is not merely a temporary difference, and the question naturally arises, How can such a great variation in the wages of the same employment be permanently preserved? Why does not the Dorsetshire labourer remove to Yorkshire, where he would be able to obtain thirty per cent. more for his labour? The obstacles, however, to such a migration are too formidable to be overcome even by such a premium as is offered by this difference in wages. In the first place, a Dorsetshire labourer can seldom either read or write; he therefore has little or no information with regard to the wages paid in other districts. His ignorance magnifies the

difficulties of removing to a distant part of the country, and makes him disinclined to leave the locality to which he has been accustomed. Again, if he has a family, he is far too poor to pay the expense of conveying them to a comparatively distant place: for we have carefully ascertained the fact that an agricultural labourer has rarely saved even a few shillings. Moreover, there is associated with our system of poor-relief a law of settlement which has often bound and fettered the labourer to the district in which he was born. No law has perhaps ever more grievously oppressed a class. A man by resorting to a place not far distant may much improve his position; employment there might be much better, and he would therefore get higher wages; but the law of settlement often prevents him availing himself of these advantages: he is not allowed to settle in another district because it is feared that he or his family may some day become chargeable on the poor rate.

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*The law of  
settlement.*

The combined influence of the causes just enumerated prevent labourers readily migrating from one district to another in order to avail themselves of the advantages which they will secure from a greater demand for their labour. We therefore obtain a more accurate conception of many of the phenomena connected with wages, if we regard a country like our own to be composed of distinct provinces in which within certain limits different rates of wages may prevail, or, in other words, different relations may exist between population and capital, or between the demand and the supply of labour. It is important to bear this in mind when we practically apply those general laws of wages which have been described at the commencement of this chapter. But let it not for one moment be supposed that these laws are less true because it is necessary to place some limitation upon their general application. The wages of the Dorsetshire labourers depend as absolutely on a ratio between capital and population as if these labourers readily passed from one part of the country to

*These facts  
are consist-  
ent with  
the princi-  
ples stated  
above.*

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*Means of  
improving  
the la-  
bourer's  
condition.*

another; but their wages are far more affected by an increase or decrease of capital and population in their own district than by any change in the capital or population of the whole country. It is also evident that if Dorsetshire labourers will not go to Yorkshire, the wages of the Yorkshire labourers are but slightly affected by any increase in the population of Dorsetshire. But wages in Yorkshire will inevitably be affected if there is any alteration in the amount of the capital invested in the district, or if there is any increase or decrease in the number of those who are seeking employment in the locality. If therefore it is thought that the wages in any particular district are too low, there is only one way in which they can possibly be raised. Sympathy will do little for the Dorsetshire labourer if his wages are to be advanced: it can only be done either by bringing more capital into the county, or by diminishing the supply of labour. This may be effected either by foreign emigration, or by some of the able-bodied labourers removing from these ill-paid districts to localities where wages are higher. We consider that such a foreign emigration and such a home emigration, if it may be so described, has already greatly benefited the agricultural labourers. Their wages, we believe, have risen within the last ten years. The result of the last census not only explained the cause of this improvement, but affords the most positive proof of its reality. The census of 1861 reveals the fact, that within the last decade the population in none of the purely agricultural districts has increased, and in many it has declined. No one can suppose that less capital is invested now in agriculture than was invested ten years since. The census figures therefore incontestably demonstrate that agricultural wages have risen. This is a result at which philanthropists ought to rejoice; but so remarkable is the ignorance of economic principles, that when the census returns first became known, the public seemed to regret this decrease

in the population of the agricultural districts, as if it denoted misery and distress, instead of proving that our worst paid labourers were becoming more prosperous.

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Every year various causes are in operation which act with increasing effect to lessen these inequalities in wages which we have just been noticing. A few years since the greatest differences in the price of commodities prevailed in different parts of the country. Communication was so difficult, that some article of food which was often an expensive luxury in one part of the country could be had in abundance in another part. Poultry was four times as dear in London as in many country districts. Railways have changed all this, and now provisions are almost as cheap in London as they are at a distant place like Aberdeen; and as people gradually avail themselves of the easy means of communication between one district and another, wages in the same employment will throughout the country approximate to one uniform rate. The more intelligent of our workmen would freely leave the place in which they were employed if they thought that by doing so their prospects would be improved; and as our agricultural labourers gradually become more intelligent, they will show an equal readiness to avail themselves of any advantage which might be offered to them by a more favourable state of the labour-market in some other locality. The strong opposition which has been expressed to the law of settlement has already caused it to be somewhat modified. The law is no doubt destined to be abolished: this will remove a restriction which has seriously impeded the labourer from offering his labour where he might consider it would meet with the best reward.

*The difference between rates of wages in different districts tends to diminish.*

The reasons we have mentioned plainly show that wages in Yorkshire may vary greatly from wages of the same employment in Dorsetshire; but although we can thus understand that such a difference in the remuneration of labour may exist, yet it becomes necessary to allude to

*Causes which make wages higher in Yorkshire than in Dorsetshire.*

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the circumstances which cause wages to be higher in Yorkshire than in Dorsetshire. Why does the capital invested in agriculture in Yorkshire bear a different relation to the number of the agricultural population from that which it bears in Dorsetshire? Yorkshire, unlike Dorsetshire, is not merely an agricultural county: it has a most thriving manufacturing industry; therefore in the former county a great many other employments besides agriculture compete for the labour of the agricultural population. We are aware that an agricultural labourer is not suddenly converted into a cloth-weaver. Such a transition rarely takes place, but if there is a manufactory close at hand, many of the children of the agricultural labourers will be employed in it. There is always connected with an active manufacturing industry much subsidiary work which can be performed by any ordinary labourer. Such work, consequently, draws off many labourers from agriculture, and thus the higher wages paid in Yorkshire may be entirely explained by those general laws which regulate all wages: for there, as in every other case, it is a question between population and capital, the agricultural population of Yorkshire being diminished by the frequent employment of the labourers themselves in other work, and by the engagement of their children in manufactories.

*Influence  
exerted on  
wages by  
good trade;*

It is popularly believed that wages are determined by other causes than those which we have enumerated: for instance, there are few who do not suppose that wages are high when trade is good, and low when trade is bad. We shall proceed to show that this opinion is erroneous, and in doing so we will explain the exact influence which is exerted on wages by good or bad trade. Now in England, where capital is accumulated with such astonishing rapidity, the amount of capital which might be invested in any particular industry could be immediately increased beyond almost any assignable limits. Suppose the pro-

spects of the cotton trade were so good, that the Lancashire manufacturers thought they could profitably invest an additional 10,000,000*l.* in their trade. Many of them would withdraw capital for this purpose from other investments, and there would be no difficulty whatever in making up the whole 10,000,000*l.* required by obtaining advances from bankers and others on the credit of the individual manufacturers. It would not, however, be possible with equal rapidity to make such an increase in the labour employed in any particular industry. One who is accustomed to other work cannot without considerable practice acquire the skill of a cotton-operative. Many of the processes of cotton-spinning could not probably be learnt by an adult, for their manipulation requires fingers trained from childhood. New capital in various forms, such as larger quantities of raw material, may be at once brought into any particular industry; but when those who have been accustomed to the industry are once fully employed, an increased supply of labour can then be only gradually obtained. Hence it appears that the labourers of each separate trade possess, as far as the supply of labour is concerned, a monopoly for a limited period. This will explain the benefit which is observed to result to any class of labourers when their special trade happens to be prosperous. Reverting for an illustration to the manufacture of cotton, let us consider what takes place when this trade is unusually active, as it was during the years 1859—60. Throughout this period cotton manufacturers realised such large profits, that they were anxious to spin as much yarn and weave as much cloth as they possibly could. They therefore had every inducement to apply to their business the greatest possible amount of capital that was practicable; this amount of capital was limited, not by any deficiency in the supply of capital, but new mills and machinery could not be at once created, and therefore it was no use for a manufacturer to buy more

*by attracting capital to particular employments.*

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raw material, or employ more labour than was suited to the mills and machinery at his command. But every manufacturer during such times does as much trade as possible; he will therefore compete for labour; every cotton operative is thus certain to be fully employed at very high wages, and consequently the prosperity of any particular branch of trade, for a time, confers a great temporary benefit upon the labourers who are engaged in it.

*The benefit thus conferred on the labourers is temporary.*

We say temporary benefit, because if the good trade continued, and wages remained exceptionally high, an additional supply of labour would at length be forthcoming. People would be gradually attracted from other worse-paid employments, since the high wages would offer them a temptation to learn a new trade. Every parent in the district would have a great inducement to bring his children up to the trade which we have supposed has become so suddenly prosperous; and this accession of juvenile labour would be the chief source from which will be gradually supplied an additional quantity of labour, sufficient to meet the increased demands of the trade. If the skill which any industry requires is particularly great, the labourers of the trade possess a more complete monopoly, because under such circumstances it would be more difficult and take a longer time to import labour from other employments. The labourers fully understand the advantages of a trade monopoly, and they constantly strive to maintain such a monopoly by various restrictions as to the number of apprentices who should be admitted into any trade. In order to effect these purposes, Trades Unions have been established. It will be better, however, to defer our remarks upon these societies, and the various other means which have been often resorted to in order to secure higher wages, until we have discussed the subject of profits, for we shall then have completed our examination of the general laws which regulate the distribution of wealth into the three primary divisions of rent, wages, and profits.



## CHAPTER V.

## PROFITS.

**R**ENT, wages, and profits, the three portions into which wealth is distributed, denote the remuneration received by different classes of individuals for the assistance which they may have rendered towards the production of wealth. Those who have appropriated land receive a remuneration in the form of rent when they permit others to use the land which has been so appropriated. Those who apply their labour to the production of wealth receive wages as a reward for this physical exertion; and profits denote the remuneration which those receive who supply the remaining requisite of production, namely capital. As capital is the result of saving, the owner of capital exercises forbearance when he saves instead of spends his wealth; profits therefore are the reward of abstinence, in the same manner that wages are the reward of physical exertion. If an individual invests a certain sum in any productive employment, his profits will consist of the entire surplus which remains after the capital has been replaced. Suppose an agriculturist cultivates his farm with a capital of 5,000*l.*; this capital will be composed of many different elements, such as stock, implements, and a fund from which he is able to advance the wages of his labourers. The profits of the farmer will consist of the surplus which remains, when from the whole produce of the farm sufficient has been deducted to replace the original 5,000*l.*, the value of the capital which the farmer possesses. But in such a

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*Profits are  
 the remuneration paid  
 to the  
 capitalist,*

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case these profits of the farmer will not simply represent a return to his capital, or, in popular language, interest for his money; the farmer has probably given his own time and labour in watching those whom he employs, and in superintending the various operations of his farm: he has of course to be remunerated for his time and trouble, and therefore part of his profits represent the wages properly due to this labour of superintendence. Again, every business is attended with more or less risk. If a man invests his capital in the funds, he may regard it as perfectly secure, but capital invested in business can never be made equally secure against possible loss. There may be revulsions in trade, bad debts; and property invested in any commercial undertaking is subject to depredations of the dishonest, and in some countries to the rapine of internal war. A capitalist therefore must receive some compensation for the increased risk of loss which is incurred when his capital is invested in trade; a portion of his aggregate profits represents this compensation. The profits therefore which a man obtains from his business are composed of the three following elements.

*and may  
be divided  
into three  
parts.*

1st. A reward for saving, or, more properly, a reward for abstinence.

2nd. A compensation for the risk of loss.

3rd. Wages for the labour of superintendence.

*Reward for  
saving.*

It is very easy to ascertain the portion of profits which ought in any particular instance to be allotted as the reward of saving. In every commercial country there are investments, the security of which is regarded as perfect. In our own country, for instance, the funds, a freehold mortgage, a railway debenture, a stock guaranteed by our own Government—all these are securities which are regarded as free from all risk. The interest which is obtained from capital invested in these securities may be considered as entirely the remuneration for saving. He who so invests his capital cannot receive any remuneration for risk, when

there is none, and the investment entails no labour upon him. The interest which is obtained from such securities is termed the current rate of interest; and therefore the first element of which profits are composed may be always estimated in amount by the current rate of interest. If the current rate of interest is four per cent., a capital of 5,000*l.* would secure a profit of 200*l.* without the slightest risk or trouble. A person therefore who has 5,000*l.* invested in his business might consider that 200*l.* of his annual profits represents interest on capital, or, in other words, is the remuneration which he receives for his abstinence.

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In many cases it is more difficult to estimate the amount of the second of the three elements of which profits are composed—namely, remuneration for risk. Sometimes, however, a man of business pays to others a certain portion of his profits to compensate him for any particular loss or risk to which his business may be exposed. Such a payment is termed an insurance. In this country it is almost a universal practice to insure against fire. Merchants insure their vessels against shipwreck; farmers not unfrequently insure their crops against the loss which may be incurred by severe hail-storms; farmers may also now insure their live-stock. The sum which is spent upon any of these insurances has of course to be deducted from the gross profits; but such insurances cannot cover the whole risk to which an individual's capital is exposed when invested in business. Thus the whole of a farmer's profits may be destroyed by unpropitious weather. In 1860 the crops were so bad, in consequence of the continued wet weather, that many farmers obtained no profit whatever; but although it is very difficult to apportion the exact amount of profits which might, in any particular business, be considered as a fair remuneration for risk of loss, yet it can readily be ascertained that some businesses and trades are subject to far greater risks than others; and therefore we should expect to find that the profits would be greatest

*Compensation for risk,*

in those trades which are most hazardous, so that the increased risk may be thus compensated. If an individual embarks his capital in some undertaking which he does not himself superintend, but which returns him a large interest, the excess of the interest so obtained above the current rate of interest represents the increased risk. Shares can always be purchased in English copper mines which will pay an interest of ten per cent., but it is impossible to foresee how long a copper mine will continue productive; every indication may be most promising, but a slight alteration in the strata may at once destroy the value of the lode. If, therefore, an individual obtains ten per cent. from a copper mine when the current rate of interest is only four per cent., six per cent. may be regarded as a return for the hazardous nature of the speculation.

*and remuneration for superintendence.*

The amount of the remaining element of which profits are composed—namely, the remuneration for the labour of superintendence—may be estimated by deducting from the gross profits the amount due to the first and second elements of profits which we have been just discussing. The remuneration which is obtained for this labour of superintendence is influenced by many of the same causes which affect the wages of ordinary labour. Some employments require for their superintendence greater skill, and greater patience, than others; some are more disagreeable to superintend than others. If this be so, then the remuneration of the labour of superintendence will be greater in one case than in the other. The caprice of society often gives to some employments a social dignity, which is refused to others; and this consideration enables us to explain the proverbially low profits obtained in this country from farming compared with the profits of many retail trades. Society now considers that a man of high family may with propriety occupy himself with farming; agricultural pursuits are extremely healthy, and thoroughly congenial to English tastes. A person does not require a

tedious apprenticeship, or an expensive special education, to qualify himself to be a farmer. Many men therefore consider that they are almost sufficiently remunerated for the labour of superintending the cultivation of their farm by the health and pleasure derived from the occupation. They therefore do not expect to receive any considerable return for the labour of superintendence. The gross profits of farming are consequently extremely small, compared with the profits of many retail trades. A grocer not only expects to receive as much interest upon the capital invested in his business as does the farmer, but, in addition to this, must also receive an adequate remuneration for superintending the details of his business. A man is induced to carry on the grocery trade, with no other object but to obtain profit from it; he is not attracted to the occupation by the prospect of securing health and pleasure.

Interest on capital, insurance for risk, and remuneration for labour of superintendence, are therefore the three elements of which profits are composed. The first, interest on capital, is represented by the current rate of interest, and therefore may be regarded as a constant quantity for all occupations at the same time, and in the same country. We say at the same time, and in the same country, because not only is the current rate of interest much higher in one age than in another, but very different rates of interest prevail at the same time in different countries. Thus the current rate of interest in England is now about four per cent., whereas, two centuries since, it was at least eight per cent.; and although at the present time the current rate of interest is only four per cent. in England, it is at least ten per cent. in Australia. The cause which produces these variations in the rate of interest will be explained in a future chapter.

In considering the profits of different trades, the amount to be allotted to interest on capital is the same for all

*Interest on capital remains constant at the same time and place.*

*Hence profits vary*

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*when remuneration nor risk and superintendence varies.*

*Each trade has a certain scale of profit,*

*which may be called the natural rate of profit.*

trades in the same country; the different rates of profit which prevail in different occupations must, therefore, be attributed to variations in the remaining components of profits, namely, insurance for risk, and remuneration for labour of superintendence. If larger profits are obtained in one trade than in another, we must be sure that, in the one trade, capital is subject to greater risk than in the other, or the labour of superintending the one trade requires a higher remuneration than in the case of the other; if, therefore, in any trade a permanently higher rate of profit prevails than in other trades, it must be due either to the operation of these causes, acting singly, or combined. But we have given agriculture as an example, to show that the profits in a particular branch of industry may be extremely small, because various circumstances connected with the trade cause a slight remuneration to be given to the labour of superintendence. Consequently, the various trades and occupations of which the industry of the country is composed, will each have a scale of profits peculiar to itself, the appropriate amount of profits which belong to each trade being determined by various causes, just in the same way as the wages of different employments are regulated by particular circumstances, which we have described in the last chapter. But such an assertion may, at first sight, seem to contradict a principle of political economy, perhaps more frequently quoted than any other; namely, that the profits of different trades have a constant tendency to become equalised. The principle, when properly understood, is true; the apparent contradiction admits of ready explanation. When the profits realised in any business are just sufficient to give an adequate compensation for interest on capital, for risk against loss, and for labour of superintendence, then it is said that the natural rate of profit is obtained; and hence it would appear that each separate trade has a natural rate of profit peculiar to itself, because this rate of profit must give a proper

remuneration for the three elements of which profits are composed; and two of these, namely, the insurance against risk, and the wages of superintendence, vary in different industrial occupations. If the current rate of interest permanently rises, an effect is produced upon the profits of all businesses, and the natural rate of profit in every business rises. But if any circumstances should occur which should increase the chance of loss in a particular trade, without affecting others, then the natural rate of profit belonging to this particular business would be increased. The natural profits of farming are low, because English tastes are such as to make farming a pleasurable occupation. As we have now explained the meaning which we assign to the term natural profits, we shall find great advantage in employing this term. We can, in fact, at once apply it to remove the apparent contradiction involved in the principle just stated.

There can be no doubt that it is incorrect to state that there is a tendency for the profits of different trades to be equalised; there is no such tendency. The circumstances of various trades are intrinsically different—one business, as we have before remarked, may be a more hazardous speculation than another, and the trader who incurs this greater risk must be compensated by permanently higher profits; these higher profits, therefore, denote a real compensation, not a casual or temporary disturbance, and there is no tendency whatever to abolish the compensation by equalising the profits of the more hazardous trade with those of the less hazardous one. But if, by some disturbing cause, the profits of a business rise or fall below that point which we have described to be their natural amount, a tendency at once is brought into operation to restore the equilibrium, and to make the profits return to their natural amount; this is the equalising tendency which affects profits, for there is no tendency to cause a uniform rate of profit to prevail in different trades. We will describe the

*Profits of different trades do not tend to become equal,*

*but to reach this natural rate of profit.*

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mode in which this equalising tendency acts, both when the profits of trade rise above their natural amount and when they fall below it.

*Example.* First, let us consider an example of a rise. During the years 1859 and 1860, the cotton trade was in a most

*The profits of the cotton trade when unusually raised tended to sink.* flourishing condition; cotton spinners realised far larger profits than other manufacturers. The cause of this active trade was an abundant cotton crop in America, and an unusually large demand for cotton goods in the East. The American civil war has quickly destroyed this sudden prosperity; a deficiency in the supply of raw cotton has thrown a gloom over the manufacturing industry of Lancashire; but if the American difficulties had not occurred, the profits of the cotton trade could not have continued to be what they were during the years 1859 and 1860. Profits were then suddenly raised greatly above their natural amount; they would, in the course of time, have inevitably been restored to their proper level by the competition of capital. In the first place, the large profits realised by the manufacturers would induce them

*The manufacturers would borrow more capital,*

to extend their trade as much as they possibly could; for they would know that, as long as the manufacture continued so thriving, their capital would not realise such large returns in any other investment. They would, therefore, be naturally anxious to withdraw capital from other investments, for the purpose of employing it in their own business. In a country where capital is so rapidly accumulated as it is in England, large amounts of capital are always available, if an eligible investment is offered. The transactions connected with the borrowing and lending of capital are carried on by bankers, stock-brokers, and bill discounters; all these are men of great acuteness and practical ability, who are ever ready to avail themselves of the slightest advantage which any particular investment may offer. When the profits of a manufacturer are extremely large, he considers that it will repay him to extend



his business to its utmost possible limits, by applying to a banker, or discount-broker, for loans. In such prosperous times, he can offer favourable terms for these loans, and they are readily granted to him; and thus there is scarcely any practical limit to the amount of capital which may be suddenly brought into a trade, when it is in an exceptionally prosperous condition, and when its profits consequently rise above their natural amount. Such a sudden accession of capital may operate, in two distinct ways, to reduce profits. In the first place, there will be an increased demand for the raw material, and the raw material will consequently rise in price. Now it is a well-known fact, that a manufacturer is not immediately compensated for an increase in the price of the raw material by a corresponding rise in the price of his manufactured goods; consequently, the profits of the trade will be reduced if the anxiety to extend a particular manufacture, when trade is good, causes such an increased demand for the raw material that its price is raised. But as the manufacture is thus extended, the supply of goods would be largely increased, and will soon become perhaps even more than sufficient to meet the demand. The cause which has mainly produced the prosperity and large profits of the trade will then cease to exist; for if the supply exceeds the demand, high prices will be replaced by low ones, and the profits of the trade will be quickly reduced. We cannot discuss at greater length the effect which is produced on prices by such an alteration in the supply of, or demand for, a commodity as that we have just noticed, without anticipating the subject of 'value,' which will be discussed in the next division of this work.

There is, however, another equalising influence which will be brought into operation if the profits of any particular business continue long to exceed their natural amount. Suppose the profits are not reduced in the manner we have described, by those who are engaged in

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*which  
would lower  
the profits  
in two  
ways,*

*and more  
capital  
would be  
attracted  
from other  
trades.*

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*These  
changes  
would take  
place slowly.*

the trade bringing more capital into it, then others occupied in less profitable employments would naturally be attracted to this thriving trade. A similar influence to that we have above described, to reduce profits, will be thus brought into operation; there would be a greater competition for the raw material, and an increased supply of manufactured goods will lower those higher profits, upon which the exceptionally large profits of the trade have depended. But it would be very erroneous to conclude that the equalising tendency we have described is instantaneous in its operation. Augmented supplies of capital may be quickly brought into any particular trade, but the trade cannot suddenly be extended beyond certain limits. During 1859 and 1860 every cotton mill in Lancashire was probably producing as large a quantity of manufactured goods as it possibly could; the existing machinery was worked to its utmost, and however large might have been the supply of capital, the quantity of goods manufactured could be increased in no other way than by creating new mills. But the construction of new mills and new machinery requires time, and during this time those engaged in the manufacture can take full advantage of the high profits. These considerations, however, suggest another circumstance which very materially reduces the high profits that prevail in times of active trade. For, with regard to the prosperity of the cotton trade which we have been just describing, it appears that every cotton mill is very soon producing its maximum quantity of manufactured goods; and that, therefore, this quantity could not have been increased unless new mills and machinery were erected. But people would be disinclined to do this unless they thought the prosperity of the trade was due to permanent causes, for before the new mills would be ready to commence work a reaction might very probably occur, and the trade might become depressed. It is, therefore, evident that only a small portion

of the additional capital which is attracted to a trade, when its profits are exceptionally high, is in the first instance employed either in the purchase of machinery or in the erection of new buildings. Hence the principal part of this additional capital is employed as circulating capital, or, in other words, is paid away in wages; the employers of the trade, in fact, compete with each other for labour. It has, however, been pointed out, in the last chapter, that the skilled labour which a particular industry requires cannot be suddenly increased by engaging labourers who had been accustomed to other occupations; consequently, the additional amount of circulating capital which is attracted to a trade by the high profits is chiefly employed, not in obtaining labourers from other branches of industry, but in raising the wages of those who are already engaged in the trade. Such a rise of wages must, however, exert a direct influence to reduce profits. We have, therefore, shown, that a rise in the price of raw material, a constantly increasing supply of goods, and an advance in wages, are three circumstances which are sure to reduce the profits of a particular trade, when its profits are exceptionally high. These reducing tendencies not unfrequently continue so long, that the profits of a trade are ultimately reduced below their natural amount; in fact, it may be often observed, that activity of trade is regularly succeeded by a corresponding depression. When, however, a trade is so depressed that its profits fall below their natural amount, then equalising tendencies are brought into operation, and raise the rate of profit; these tendencies we will now proceed to describe.

*and would at first raise the rate of wages in the trade, and depress profits.*

Let it be supposed that a trade has been affected by adverse circumstances, and that its profits are reduced below the natural rate. In the autumn of 1862, the time at which these pages were written, the cotton trade was in an extremely depressed state. The price of raw cotton had risen so much, in consequence of the American civil *Profits*

*The contrary case.*

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*depressed  
below the  
natural  
rate tend to  
rise.*

war, that it was almost impossible, without incurring loss, to manufacture cotton goods at the prices they now realise.

In fact, it would be perhaps advisable for manufacturers to close their mills, were it not for the sufferings which would be entailed upon the operatives; and the machinery is also greatly impaired by being for any considerable time disused. Under such circumstances, it is the interest of the manufacturers to contract their business; some mills are consequently closed, and great numbers work short time. The supply of cotton goods is greatly diminished, a tendency to a rise of prices is produced, and profits will be gradually restored to such amount as again to make the manufacture remunerative. In fact, manufacturers follow a directly opposite course from that which is pursued when the trade is thriving; in the latter case, everything is done to increase the capital applied in the business; but when trade is bad, operations are restricted, capital is withdrawn, less is paid in wages, and new mills are not erected. If, however, this country should for a length of time be deprived of a supply of raw cotton from America, then the cotton trade will suffer a more permanent depression, and a set of consequences will ensue different from those which occur when trade is depressed by some temporary cause.

*Case of the  
silk trade.*

The circumstances, however, which have thrown the cotton manufacture into a state of stagnation, are so exceptional, that it will perhaps be more advisable to illustrate our remarks by considering the present condition of the silk trade in this country. It is supposed, by some, that the French possess natural advantages for the manufacture of silk, greatly superior to those of our own country. It is, for instance, said that, owing to the clear atmosphere of France, the silks assume a finer colour than those which can be produced in England. The French, it is also maintained, show greater taste in these finer manufactures. We believe that these pretended advantages have been greatly exaggerated, and that England will be

able to compete with France, even in the manufacture of silk. But there is no doubt that, at the present time, French silks are considered to be superior to English silks. The consequence has been, that since the Budget of Mr. Gladstone in 1860 admitted French silks duty free, the English silk trade has been greatly depressed, and its profits have been reduced below the natural rate. Let us inquire what will occur if the supposed superiority of French silks is permanently maintained. The English silk trade will continue to be depressed; but the question arises, Will the profits of this trade remain, therefore, constantly below their natural rate? It is impossible that such should be the case, for manufacturers will not continue an industry from which they realise less profit than in any other branch of trade. Silk manufacturers would, therefore, under the circumstances assumed, remove their capital as quickly as possible from this trade, and employ it in some other more remunerative way. The transfer cannot be made suddenly; it will require a considerable time, and must cause great loss to the manufacturers. All the fixed capital employed in the silk manufacture, such as machinery and buildings, cannot be adapted to other industrial purposes without involving a large outlay. The manufacturers, too, will not readily submit to the change; they will struggle with the adverse circumstances for a considerable time. No man, even independently of the pecuniary sacrifices involved, would willingly change a business to which he has been accustomed, and in which he has acquired a skill, for one to which he would be a stranger. A trade therefore, if its profits were permanently reduced below their natural amount, would, after a certain time, be entirely relinquished, and individuals engaged in the trade might be severe losers; but as we shall prove, when discussing the principles of international trade, no injury would ultimately be inflicted upon the community in general.

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CH. V.

*Causes  
which regulate the  
general rate  
of profit.*

*Statement  
that the  
rate of  
profit de-  
pends upon  
wages ex-  
amined.*

Having remarked upon the equalising tendencies which preserve the profits of each department of industry at a certain relative amount, which we have designated as the natural rate of profit, we shall next proceed to consider the causes which regulate the general rate of profit which prevails throughout the country at any particular time. Now it has been previously stated that the general rate of profit is higher at one time than at another, and that very different rates of profit prevail in different countries.

If we take the case of any manufacture as an example, it is quite manifest that the produce is shared between the employer and the employed; or, in other words, between profits and wages. In any given case, the more the employer receives, the less will be left for the employed; or, in other words, the more is taken in the form of profits, the less will be given in wages. If wages take a larger share of the produce, profits must take a smaller share. Suppose, however, that industry, by the introduction of new machinery, is rendered more productive, there will then be a greater quantity of produce to be distributed, and more may be apportioned to profits, without the slightest reduction in wages. But, although the amount of wages received might remain the same, yet it has been customary for political economists to say, that the rate of wages would be altered; for they conceive that the rate of wages is determined by the ratio which wages bear to profits. Ricardo employed the expressions, 'rate of wages,' and 'rate of profit,' to explain merely the terms of a ratio, and he would have said, that even if wages were reduced one half in amount, the rate of wages and the rate of profit would have remained unaltered, supposing that the reduction in wages was accompanied by a corresponding reduction in profits. Ricardo seemed to rejoice in a surprising paradox, and the paradox was often created by using language the meaning of which was somewhat obscure. Ricardo and others have asserted, that the rate

of profit depends upon wages. This, if properly understood, is no doubt true; and profits may be defined to be the surplus which remains after the capital has been replaced which has, directly or indirectly, contributed to the production of wealth. The proportion which the surplus bears to the capital which has been so expended determines the rate of profit. If the expenditure of a certain quantity of capital produces an amount of wealth equal to three times its value, then the surplus which remains, after the capital expended has been replaced, will equal twice the value of this capital; and, therefore, the rate of profit will, in this case, be two hundred per cent. But when we speak of capital being expended in the production of wealth, let us enquire how it is expended. A great portion of it is paid away directly in wages, the remainder is spent in purchasing materials or machinery; but even when such a material as coal is bought, the money with which it is purchased may be regarded as indirectly devoted to paying wages, for the money for which coal is sold pays the wages of all those who have contributed to raise it. The capital, therefore, which is applied to the production of any commodity is expended, either directly or indirectly, in wages. The rate of profit, as we have just remarked, depends upon the ratio which the whole produce raised bears to the capital expended in raising this produce; and, since this capital is expended in paying wages, Ricardo and others have stated that the rate of profit depends upon wages. Such a principle, however, is useless, without the kind of explanation we have given; the principle, moreover, is not correct, unless the terms in which it is expressed are modified. For if labour is rendered greatly more efficient, either by better education, by superior management, or by improved machinery, more produce will be raised by the application of the same quantity of labour. The same capital may be expended, or, in other words, the same amount

*In what  
sense it is  
true.*

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may be paid away in wages ; but, in consequence of the superior efficiency of labour, more will be produced. A greater amount, therefore, will be left to be apportioned to profits ; and thus the rate of profit will be increased, whilst wages will remain unaltered. This is in direct contradiction to Ricardo's principle, that the rate of profit depends on wages ; and, therefore, this principle is not correct, unless it is assumed that the efficiency of labour is a constant quantity.

*Correct statement of the principle, viz. that the rate of profit depends upon the cost of labour.*

Mr. Mill has shown that the correct way of stating the principle is, that the rate of profit depends on the cost of labour. The cost of labour is determined by comparing the wages the labourer receives with the amount of wealth which is produced by his labour. If, therefore, labour is rendered more efficient, the cost of labour is manifestly diminished, because either more produce is raised by the payment of the same amount of wages, or an equal amount of produce results from the expenditure of a smaller sum in wages. When labour is rendered more efficient, we have seen that the rate of profit will rise, although the same amount is paid in wages. Hence, if whilst each individual labourer receives the same remuneration, his labour produces more, the cost of labour is diminished ; thus the rate of profit depends upon the cost of labour, and not upon wages. From this principle some most important conclusions may be at once deduced. If anything occurs to render labour more efficient, profits will be increased, if it is assumed that the labourers receive the same wages as before. It also follows that, when labour becomes more efficient, the rate of profit, and also wages, may both be increased ; for profits must be increased if the rise in wages is not so great as to make the cost of labour more than it was before the improvement in the efficiency of labour took place. With regard to agriculture, it has been frequently stated that, as land diminishes in fertility, the labour which is applied to it will diminish in productive-



ness. Twenty labourers working on poor land will not cause as much produce to be raised as ten labourers working on more fertile soil. Unless, therefore, the agricultural labourers receive less wages, the cost of agricultural labour must increase; or, in other words, the rate of profit obtained from farming must decline as it gradually becomes necessary to resort to less fertile land. Let us apply these conclusions to explain some of those points in which the present economical condition of Australia contrasts so strongly with that of England. In enunciating Ricardo's theory of Rent, we have shown that, in each country, the poorest land cultivated can only pay a nominal rent. The present population of Australia is comparatively small, and yet her tracts of uncultivated fertile land are almost of boundless extent. The worst land which is cultivated in Australia is far more fertile than the worst land cultivated in England. Hence, agricultural labour, being applied to a more fertile soil, is far more efficient in Australia than in England. The same amount of labour which is employed upon the poorest farms in England would, if applied to any land which is cultivated in Australia, cause a great deal more produce to be raised. Hence, in consequence of the increased efficiency which is thus given to agricultural labour in Australia, the wages of agricultural labourers may be much higher in Australia than in England, and yet the cost of this labour in Australia may be less than it is in England. But if the cost of labour is diminished, the principle we have enunciated assures us that the rate of profit must be increased; and such a conclusion is amply verified in the case of Australia. Wages are far higher there than in England, and profits are also higher. This is abundantly verified by the fact that the current rate of interest is far in excess of that which prevails in our own country. There may appear to be a difficulty connected with the explanation we have just given; for it may, perhaps, be said, the

*Cost of  
labour in  
Australia  
and Eng-  
land.*

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*The cost of agricultural labour is measured by its cost when applied to the least fertile soils in cultivation.*

agricultural labour which is applied to some of England's most productive soils yields more than the same quantity of labour applied to even the best land in Australia. It may, therefore, be thought incorrect to say that agricultural labour is less productive in England than in Australia, since it would seem that only that portion of our agricultural labour is less productive which is employed upon our least fertile soils. This ambiguity must be cleared up; for it can be shown, that the standard of the cost of agricultural labour is determined by the cost of that labour which is employed upon the least fertile land in cultivation. Rent may be regarded as a sum which the farmer pays for the permission to employ labour upon productive land. The more productive is the land, the higher, of course, is the rent; or, in other words, the more favourable the circumstances under which agricultural labour is applied, the greater is the sum which has to be paid as rent. Although agricultural labour employed on a fertile soil is, of course, more efficient, yet the farmer obtains no advantage from the cost of this labour being diminished, for what he would thus gain he has to pay away in rent; his profits, therefore, would not be diminished by an increase in the cost of labour, provided that there was a corresponding reduction in his rent. The profits which are derived from agriculture approximate to an equality, and it is still correct to say, even with regard to agriculture, that the rate of profit is determined by the cost of labour; if we bear in mind, that in this case the cost of labour is not entirely composed of wages, but also consists of rent, since rent may be regarded as a premium paid when agricultural labour is assisted by a fertile soil. Considered in this light, therefore, the cost of agricultural labour may be regarded as uniform throughout the same country. But in the case in which the worst land cultivated is so poor that only a nominal rent is paid, then rent can no longer be regarded as an

element of the cost of agricultural labour. And hence the proposition which we have above enunciated is proved, namely, that the general cost of agricultural labour is determined by the cost of that labour which is employed upon the least fertile land in cultivation. If, therefore, food cannot be supplied to an advancing population without continually resorting to less fertile land, then one of two consequences must inevitably ensue: either the cost of agricultural labour will increase, and then a decline in the rate of profit will follow; or, if the cost of this labour does not increase, the labourers must receive lower wages; for when labour is applied to less productive land, an increase in the cost of this labour can alone be prevented by paying the labourers lower wages.

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We believe that sufficient has been stated to establish the proposition, that the rate of profit depends upon the cost of labour. If, therefore, the rate of profit is higher in one country than in another, it must be because the cost of labour is greater in one country than in the other. Let us enquire into the causes which regulate the cost of labour. If capital increases, without any increase in the number of the labouring population, it is manifest that there is a large sum to be distributed amongst them; wages will rise, and consequently the cost of labour will increase, and the rate of profit will diminish. If population increases, and capital remains stationary, wages will fall, the cost of labour will be diminished, and the rate of profit will advance. Hence it appears that not only the average remuneration of the labourers, but also the rate of profit, is primarily determined by the ratio between the capital of the country and the number of its labouring population. This, however, is not a complete explanation, for it would seem to indicate that the rate of profit is higher when wages are low; facts contradict this, for in Australia wages and profits are both higher than they are in England. But the difficulty

*Variation  
in the cost  
of labour  
in different  
countries.*

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*Cost of  
labour not  
to be con-  
founded  
with wages.*

arises from confusing wages with cost of labour; wages may be very low, and yet the labour be so inefficient, from want of proper training or of physical strength, that the cost of labour may be extremely high. The English contractors who made the French railways could have engaged any number of French labourers, at one half the wages that were paid to English navvies; but so superior is the physical strength of an Englishman, that it was proved that one English navvy would do as much work as two French labourers. In this case, therefore, the cost of French labour would be as great as the cost of English labour, although the wages of the English labourer were twice as great as those paid in France. Again; high wages do not always denote that a large remuneration is received by the labourer. Wages may be high, and food so dear, that a labourer is far better off in a country where wages may not be so high, but food cheaper. Hence labourers may be comparatively speaking impoverished, in consequence of the dearness of food, although their wages are high; in such a case the cost of labour would be great, and the result would be a low rate of profit, accompanied with the impoverishment of the labouring class. Such is the result which has to be feared by a country whose increasing population makes food dearer. The supplies of cheap food which have been poured into England since the introduction of free trade have produced as powerful an influence in sustaining profits, as in promoting the comfort of the working classes.

In a country where food is extremely cheap, wages may be low, and the cost of labour small, and yet these low wages may be sufficient to give the labourer an abundant supply of all that he requires. Under such circumstances, the rate of profit would be high, and all the wants of the labourers would be amply provided for. This represents the condition of America, where food is cheap, the labourers well off, and the rate of profit, as shown by

the current rate of interest, is higher than in England. Hence, to quote an expression of Mr. Mill, it may be said that 'cost of labour, and therefore the rate of profit, is a function of three variables :'

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*Cost of labour and rate of profit a function of three variables:*

1. 'The efficiency of labour.'
2. 'The wages of labour' (meaning thereby the real reward of the labourer).
3. 'The greater or less cost at which the articles composing that real reward can be produced or purchased.'

If labour becomes more efficient, whilst the wages of the labourers and the price of food remain unaltered, the cost of labour will be diminished. If the wages of the labourers are reduced, whilst there is no change in the efficiency of labour and the price of food, the cost of labour will again be diminished. The cost of labour will also be diminished if the price of food is reduced, and the amount of the labourer's wages, estimated by the commodities they will purchase for him, remains unchanged. If, therefore, the cost of labour, or, in other words, the rate of profit, varies in different countries from time to time, the variations must be due to the influence of one or more of the three circumstances above enumerated. The current rate of interest affords a sufficiently sure evidence of the rate of profit, and it would be a most useful exercise for the student to attempt to trace to which of the three variables is due a high or a low rate of profit, which may happen to prevail in any particular country. In order to assist him in such an examination, we will indicate some of the leading causes upon which depend the efficiency of labour, the real wages of the labourer, and the price of food.

We have, in previous chapters, described in detail the causes which determine the productiveness of labour. We will here only add, that nothing more powerfully promotes the efficiency of labour than an abundance of fertile land. But an abundant supply of fertile land causes food

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supply of  
fertile  
land;

to be cheap, and, under such circumstances, two out of the three causes are brought into operation upon which depend a high rate of profit and a small cost of labour; the influence which is thus produced in increasing the rate of profit, is so great, that in a country like Australia, where there is a large supply of fertile land, profits are high, although a labourer at the same time receives a very large remuneration for his labour.

secondly,  
the wages of  
labour,  
which depend  
upon  
the relative  
increase of  
population

The second variable, upon which depends the cost of labour—namely, the remuneration received by the labourer—is determined by the ratio which population bears to capital. It would be foreign to our purpose to attempt to describe why some countries are more populous than others. Our colonies and the American continent have not yet had time to be thickly peopled with an European population. We have in the last chapter remarked upon the power of man's multiplication, and we have mentioned that Mr. Malthus's 'Essay on Population' gives a most detailed and interesting analysis of the checks by which, in various countries, population is restrained. In England, whatever may be the other checks which restrain population, there is one which exercises a preponderating influence in determining the variations in the number of our labouring population. It has been satisfactorily proved that the number of marriages varies with the price of food, diminishing as food becomes dear, increasing as food declines in price. A great portion of the advantage which the poor would derive from the cheapening of food is therefore ultimately lost to them, because the increase of population which is stimulated by cheap food must have a tendency to lower wages.

and capital.  
The increase of  
capital  
itself depends upon

The causes which influence the accumulation of capital are extremely various. Much depends upon national character; one nation may be far more prudent, and may possess much more foresight than another; one nation may consume, in their own personal enjoyment,

almost all the wealth they can obtain, whilst another saves everything which the most rigid economy will permit. No nation will ever accumulate a large amount of capital for the purpose of applying it to productive purposes, until there is sufficient social order to render property secure. Nothing has so powerfully impeded the industrial progress of India, and retarded the development of her great resources, as the social anarchy which has prevailed for so many centuries. If England's rule and England's power can make the people of India feel that the rights of private property will be strictly respected, then India will inevitably become a great commercial nation. But independently of any effects produced upon the accumulation of capital by these differences in the character and condition of various nations, it may be observed that the accumulation of capital is always influenced by the rate of profit. If, for instance, the current rate of interest should be greatly increased in England, an additional inducement would be offered to every one to save, and the result would be strikingly exhibited by a greatly increased accumulation of capital. The amount of wealth, therefore, which is saved in a country is kept, as it were, confined between certain limits by a self-acting agency. For if in any particular year there should be some irregularity which should cause a much larger capital to be saved than is customary, the labourers would, in consequence of this augmentation of capital, receive higher wages, the cost of their labour would thus be increased, the rate of profit would diminish, and the current rate of interest would fall. In this manner less inducement would be held out for individuals to save, and a force, as it were, would be created to restore capital to its former amount. Sufficient capital might soon be accumulated in England to reduce the current rate of interest to two per cent. This was the current rate of interest in Holland at the end of the last century; the Dutch at that time

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and the  
national  
character.

Thirdly,  
the cost of  
producing  
the real  
wages.

A diminu-  
tion of this  
cost will be  
beneficial  
both to the  
employer  
and la-  
bourer.

were therefore content with two per cent., but the English are not satisfied unless three per cent. can be obtained. The current rate of interest, therefore, to a great extent, depends upon national character; for if the English, as a nation, became more prudent, and more anxious to save, the current rate of interest might rapidly decline to two per cent.

The effect which is produced upon the rate of profit by the last of the three variables, upon which the cost of labour depends, has not generally been sufficiently considered. Suppose an employer pays 1000*l.* in wages, the labourer spends the greater portion of these wages in purchasing food. We have ascertained that an agricultural labourer, with a family, consumes forty per cent. of his wages in purchasing bread; 400*l.* therefore, out of 1000*l.* paid in agricultural wages, is devoted to the purchase of bread\*. Suppose, by some cause, such as the introduction of free trade, that the price of bread is reduced one-fourth; a loaf before sold for 1*s.* 4*d.* now only costs 1*s.*; 300*l.* will purchase as much bread as 400*l.* did before the price of bread was reduced. The labourers therefore, who amongst them received 1000*l.* in wages, will now be quite as well off if they only receive 900*l.* Their real wages will remain unchanged, although their nominal wages should be reduced one-tenth. The cost of labour might thus, in consequence of bread being cheapened, be reduced one-tenth, without the condition of the labourer being in the slightest degree deteriorated. But the question may very reasonably be asked, Will the employer be able to appropriate to himself the whole advantage? Is cheap food alone instrumental in increasing the rate of profit? We shall be able to explain why this seldom or never takes place; the advantage is invariably shared by the employer and the labourer. When the cost of labour is diminished, the capital previously existing can support an increased

\* The labourer is supposed to earn 10*s.* a week, and to have a wife and two children; the price of bread being 1*s.* the 8*lb.* loaf.



amount of industry. In the example we have above given; a farmer, in consequence of bread being cheapened, pays only 900*l.* in wages instead of 1000*l.* He, therefore, has 100*l.* to spare. This he may apply in employing more labourers on his farm, or he may invest it as capital in some other undertaking. In either case, the labourers as a class are benefited by a proceeding which virtually increases the capital of the country, and, therefore, the demand for labour; but if this be so, their wages will be raised, and they will share with their employer the advantage of cheap food. We may, however, suppose one purely imaginary case, in which the labourers would not be benefited by cheap food. If the 100*l.* which, in the above example, the employer saves by the cost of labour being diminished, is not saved as capital, but is spent upon the employer's own enjoyments, the labourer's wages will not be increased; for the capital of the country will be decreased in proportion to the diminution in the cost of labour. We say such a supposition is purely imaginary, for an increased rate of profit never makes men more extravagant; it in fact produces an opposite influence, for it always most powerfully stimulates the accumulation of capital.

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We have now remarked upon the more prominent circumstances which determine the rate of profit; much still remains to be said upon the subject of profits, which we must postpone until the next book, when we shall treat of value and price; for it is impossible to trace the subject of profits, in all the ramifications of trade and commerce, without the guidance of those principles which we shall derive from the consideration of various topics connected with the exchange of wealth.

Having now discussed the leading principles which regulate rent, wages, and profits, we shall proceed to apply these principles to some special cases which possess great practical interest at the present time. We are the

*These principles will be exemplified in the chapters on value,*

*but are already applicable to some special cases.*

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more anxious to do this, because a student can only become familiarised with the principles of political economy by employing them to solve the economical problems which are abundantly suggested by the facts of every-day life. We shall endeavour to show how the distribution of wealth is effected, when the landed tenure is different from our own; when wages are regulated by other causes than by supply and demand, and when industry is conducted by other combinations than those of employers and employed. We shall be thus led to enquire into the social and economical effects of peasant proprietorship, of metayer rents, and of the various landed tenures which prevail in India. We shall also examine the utility and practicability of the various remedies which have been resorted to to raise wages; we shall thus point out the influence which has been produced by strikes and trades' unions; finally, we shall describe the great results which may be anticipated from the extension of the recently established and rapidly developing cooperative societies. These societies unite a great number of small capitals, and combine the employer and employed in the same individual.

## CHAPTER VI.

## PEASANT PROPRIETORS.

WE have already warned the reader against the conclusion that the present system of landed tenure in England is to be regarded as the type of that which prevails throughout Europe and the other civilised parts of the world. A very considerable portion of the land in England belongs to the large estates of the aristocracy; land is rarely cultivated by its owner. The farms in England are generally large, and are becoming larger; they are almost entirely cultivated by hired labour; and, consequently, the produce of the land has to be distributed amongst landlords, farmers, and labourers. But the condition of England in this respect was, a few centuries since, very different. No class of men in our early annals occupied a more prominent or honourable position than the yeomanry. Their praises have been sung by our greatest poets; their sturdy independence on many occasions preserved the liberty, and proved the courage, of the English race. The tenant farmers of the present day differ essentially from the old yeomen of England, who were freeholders, cultivating the land which they owned. Their holdings were generally much smaller than those of the present day. In many continental countries, such as France, Norway, Switzerland, Italy, Belgium, Prussia, and some of the German states, much of the land is still possessed by small proprietors, termed peasant proprietors.

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*Different  
kinds of  
landed  
tenure.*

*Peasant  
proprietors.*

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*Differences  
of opinion  
as to the  
advantages  
of peasant  
proprietor-  
ship.*

who cultivate the land which they own. A peasant proprietor frequently cultivates his farm entirely by the labour of himself and his family. In this case, land, labour, and capital are all supplied by the same individual; he therefore claims the whole produce of the land; and rent, wages, and profits are merged together. The question as to the comparative advantages and disadvantages of cultivating the land by peasant proprietors has been, perhaps, more keenly discussed by political economists than any other subject. On the Continent, not only political economists, but practical farmers, are decidedly favourable to peasant proprietorships; they can of course watch the system in actual working, and are therefore in a much better position to judge of its effects than we who have now no opportunity of observing any considerable tract of land in England cultivated by peasant proprietors. English opinion is so strongly in favour of large farming, that we may naturally expect to find that our countrymen almost invariably express themselves antagonistic to a system of peasant proprietorships, which implies small farming. The system has, however, in England, two earnest champions, Mr. J. S. Mill and Mr. W. T. Thornton. Both of these writers have collected a great mass of facts bearing upon the subject, and have discussed these facts with the most perfect impartiality. Much of the opposition which has been expressed by English writers towards peasant proprietors is undoubtedly due to a radical misconception. Peasant proprietorships imply small farms, but a small farm cultivated by its owner differs essentially from a small farm rented upon a lease; we believe that the whole advantage which can be attributed to peasant properties is almost entirely due to the fact that the cultivator owns the soil which he tills. The well-known Arthur Young, whose preference in favour of large farming was most decided, has very happily said, 'Give a man the secure possession of a bleak rock, and he will turn it into

a garden; give him a nine years' lease of a garden, and he will convert it into a desert.'

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In a previous chapter, we have stated various reasons which incline us to the conclusion, that large farms are more productive than small farms, when land is cultivated not by its owner, but by a tenant\*. This opinion is corroborated by the facts of every-day experience; for there can be no doubt that the size of farms in England is increasing, rather than diminishing; and the advantage of large farms is sure to be more prominently shown, as machinery of an expensive character becomes extensively used in agriculture.

*The advantage possessed by large farming over small farming does not prove that large landed properties are better than small.*

We cannot suppose that small farms are being absorbed into larger ones, simply in consequence of the caprice of landlords; the absorption takes place, because tenants and landlords have alike learnt that a higher rent can be paid for a farm of six hundred acres, than for the same land divided into two farms of three hundred acres. But, although it can be proved that large farming is more productive than small farming, yet such a conclusion does not definitely decide whether or not a nation is benefited by a class of peasant proprietors; for it has been already stated, that there is a fundamental distinction between a peasant proprietor and a small tenant farmer. Now we believe that very great social advantages are derived from peasant proprietorships; but before we enquire into this particular branch of the subject, we shall describe the economical effects which result from the cultivation of land by peasant proprietors. The question is in fact reduced to this—To what extent are the disadvantages which are associated with small farming compensated by the advantages which arise from the cultivator feeling that the land is his own? We will first make some general remarks on the subject, and then substantiate our opinions by well-authenticated facts.

Many of the inconveniences which belong to farming

*Incon-  
veniences*

\* See Book I., Chap. VI.

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*of small farming, which are also applicable to peasant proprietorships.*

on a small scale, exert a similar influence when an equally small farm is cultivated by a peasant proprietor. The want of proper machinery and implements is the most formidable difficulty with which small farming has to contend; and it may be observed, in England, that the implements and stock of small farms are generally of an inferior kind. A small farmer has not sufficient capital promptly to take advantage of improved implements, and it often would not answer his purpose to make a considerable outlay in purchasing a new implement, considering the comparatively little work it would have to do on a small farm. The expenses of a small farm are comparatively much greater than those of a large one; a flock of six hundred sheep may probably require only one shepherd, but six separate flocks of a hundred sheep each would certainly require six shepherds. A similar consideration applies to much of the other labour which is employed upon a farm; a farmer is obliged to spend the same time in going to a fair or market, whether he has 50*l.* worth of stock or corn, or whether he has 500*l.* worth to dispose of. Farmers appreciate this, for it is proverbially said that small farms cannot compete with large ones, because the profits of a small farm are eaten up by expenses. A small farmer in England is generally occupied, partly in labouring himself, and partly in superintending the labour of others. Frequently he is efficient neither as a labourer nor as an overlooker of labour; and the want of industry in our small farmers has been often remarked. It must, however, be borne in mind, that both the large and small tenant farmer have no interest in improving the land; for if capital is spent by a tenant farmer in improvements, the landlord, at the expiration of the lease, may appropriate the whole advantage to himself by raising the rent. In England, therefore, the land must be improved, not by the cultivator, but by the capital of the landlord. English landlords have, within the last few years, appeared to

*How these inconveniences are compensated in the last case.*

recognise that profit can be realised by draining and otherwise improving the soil, and embarrassed landlords can, as we have before remarked, readily borrow capital for the improvement of the land by guaranteeing six per cent. on the amount borrowed, as a rent-charge for twenty-two years. But there are improvements of a more difficult and delicate kind, which, it appears, will never be carried out unless the cultivator is stimulated to the most watchful and untiring industry, by the feeling that the property which he improves is his own property. The testimony of Arthur Young on this point is very valuable:—‘Leaving Sauve,’ says he, ‘I was much struck with a large tract of land, seemingly nothing but huge rocks, yet most of it enclosed and planted with the most industrious attention. Every man has an olive, a mulberry, an almond, or a peach-tree, and vines scattered among them; so that the whole ground is covered with the oddest mixture of these plants and bulging rocks that can be conceived. The inhabitants of this village deserve encouragement for their industry, and if I were a French minister they should have it. They would soon turn all the deserts around them into gardens. Such a knot of active husbandmen, who turn their rocks into scenes of fertility (*because, I suppose, their own*), would do the same by the wastes, if animated by the same omnipotent principle.’ Again, ‘Walk to Rosendal (near Dunkirk), where M. le Brun has an improvement on the Dunes, which he very obligingly showed me. Between the town and that place is a great number of neat little houses, built each with its garden and one or two fields enclosed, of most wretched blowing dune sand, naturally as white as snow, but improved by industry. *The magic of property* turns sand into gold.’

*The magic  
of property.*

Flanders affords the most striking example of the influence produced by what Arthur Young so aptly terms ‘the magic of property.’ The farming both in East and West Flanders has long been celebrated; it is unsurpassed

*Evidence  
in favour  
of small  
properties*

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*derived  
from the  
state of  
Flanders.*

*Cultivation  
of sand-  
dunes.*

in Europe; for as Mr. M'Culloch says, 'Its natural soil consists almost wholly of barren sand, and its great fertility is entirely the result of very skilful management and judicious application of various manures.' Such a tract of land, if owned by a landed aristocracy, would have remained a barren waste. It would be worthless to be rented by a tenant, and no labour which a landlord could have hired would have bestowed that unwearied and intelligent industry which has converted barrenness into luxurious fertility. This will become evident when we know the agency by which these improvements have been effected. It has been frequently remarked by those who have travelled through Flanders, that the Flemish agriculturists want nothing but space to work upon. Whatever the quality of the soil may be, in time they will make it produce something. The sand in Campine is like the sands on the seashore, of which they originally were a part; and here you see a cottage and rude cowshed erected on a most unpromising spot. The loose sand is held together in little mounds by the roots of the heath. A small spot being selected, is surrounded by a ditch and levelled; it is then planted partly with broom and potatoes, and perhaps a small patch of diminutive clover, and manures both solid and liquid are collected. This is the nucleus from which, in a few years, a little farm will spread around. The only thing that will grow on this sand without manure is broom, and this will be sown if no manure can be got, and will in three years be fit to cut, when it is sold to bakers or brickmakers. The leaves falling enrich the soil, and the roots give it a compactness; it may now be sown with buckwheat or rye without manure. When this is reaped, some manure may have been obtained, and a course of cropping may begin. With the aid of clover and potatoes, a farmer may keep cows and make manure; the improvement will be so rapid, that in a few years the soil will become as mellow, retentive of moisture,



and enriched by manure and the decomposition of vegetable matter, as soil which was originally good; and the crops produced by both soils will be more nearly alike at harvest, than is the case in soils of different qualities in other countries. The people who have achieved these great results in agriculture are principally peasant proprietors, and they labour so earnestly and so intelligently because the ground they till is their own.' The Flemings, at a time when English agriculture was in a most backward condition, followed a most approved system of rotation of crops. The English farmer is generally a better-educated man than these small Fleming proprietors. He has money at his command, a far larger capital than they have, and therefore he is able to purchase superior implements; but a competent authority has observed, 'that in the minute attention to the qualities of the soil, in the management and application of manures of different kinds, in the judicious succession of crops, and especially in the economy of land, so that every part of it shall be in a constant state of production, we have still something to learn from the Flemings, and not from an instructed and enterprising Fleming here and there, but from the general practice\*.'

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*Goodness of  
Flemish  
farming.*

Authorities seem unanimously to agree upon the great industry evinced by peasant proprietors, and thus peasant proprietors would appear essentially to differ from small farmers who rent the land they cultivate; for indolence is generally assigned as the fault of this latter class. Mr. Inglis was forcibly impressed with the wonderful industry of the peasant proprietors of Zürich. Mr. Laing, a traveller who, with singular acuteness, has observed the economy of various European countries, remarks, when speaking of Norway, the country where peasant proprietors are most numerous, and of longest standing in

*Evidence to  
the same  
effect from  
Zürich,*

*Norway,*

\* See an article on Flemish Husbandry in the Farmers' Series of the Society for the Diffusion of Useful Knowledge.

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proportion to the population, 'if small proprietors are not good farmers, it is not from the same cause here which we are told makes them so in Scotland—indolence and want of exertion. The extent to which irrigation is carried on, in these glens and valleys, shows a spirit of exertion and *cooperation* to which the latter can show nothing similar.' Once more we will quote Arthur Young, who has most happily expressed the effect which the feeling of property exerts in stimulating industry. Although Arthur Young often found great fault with the agriculture which he observed on some of the small properties in France, yet he remarks that what he saw in France 'proved that property in land is, of all others, the most active instigator to severe and incessant labour.' And this truth is of such force and extent, that I know of no way so sure of carrying tillage to a mountain-top, as by permitting the adjoining villagers to acquire it in property; in fact, we see that in the mountains of Languedoc they have conveyed earth in baskets on their backs, to form a soil where Nature had denied it.' It has been often urged as an objection against small properties in land, that there are many important improvements which can only be carried out by a cooperation of labour and combination of resources, which, it is supposed, would not exist among small proprietors. For instance, it may be impossible to drain one isolated field, if those around it remained undrained; an outlet must be found for the water, and in this way the interests of an adjoining property might be affected. Again, in many countries the fertility, and consequently the value, of the land depends on irrigation. Any one who is acquainted with those works of irrigation which have converted many of our English valleys from almost useless swamps into the richest meadow-land, will no doubt have observed, that the most expensive of these works are not constructed for any particular field, but serve a large tract of country.

and  
France.

*Certain objections to peasant proprietorship are obviated by the cooperation of labour as shown by the Norwegian peasants.*

Therefore it might be supposed that irrigation would never be attempted, if it were necessary to consult the conflicting interests of a great number of small proprietors. Such a supposition is completely met by the testimony of Mr. Laing with regard to Norway, who assures us that, in many districts entirely occupied by peasant proprietors, irrigation is carried out to its fullest possible extent. Mr. Laing emphatically speaks, not only of the industry, but also of the *cooperation* of labour, shown by the Norwegian peasant proprietors in irrigating their land.

English writers, whilst allowing that a small proprietor may cultivate his land with great care, have almost invariably assumed that this kind of cultivation is more suited to a garden than a farm, and hence it is frequently stated that farming by peasant proprietors is much more expensive than farming on a large scale. The gross produce from small properties may be greater, but the nett produce, it is said, cannot be. Some continental agriculturists have, however, enquired into this subject with great care, and their conclusions are worthy of attentive consideration. Amongst a great number of German writers whose opinions upon this subject coincide, we select Albrecht Thaer, a writer on the different systems of agriculture, and who had, in some of his earlier works, expressed himself very decidedly in favour of large properties divided into large farms. He says he is convinced 'that the nett produce of land is greater, when farmed by small proprietors, than when farmed by great proprietors or their tenants.' Mr. Kay, a most intelligent English writer, also affirms this. 'The peasant farming of Prussia, Saxony, Holland, and Switzerland, is the most perfect and economical farming I have ever witnessed in any country.' But if the nett produce of land is increased when occupied by small proprietors, a large estate ought, of course, to be more valuable if it were divided amongst several small proprietors. Upon this point, we obtained from M.

*Is the nett produce greater on small properties, as well as the gross?*

*Evidence of A. Thaer,*

*Mr. Kay,*

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and M.  
Reichensperger.

*Rapid increase of the value of small properties.*

*Experience of England.*

Reichensperger some most valuable information, based upon personal observation, and upon the most accurate statistical facts. He expresses a very decided opinion, not only that the gross produce of any given number of acres held and cultivated by small or peasant proprietors, is greater than the gross produce of an equal number of acres held by a few great proprietors, and cultivated by tenant farmers, but that the nett produce of the former, after deducting all the expenses of cultivation, is also greater than the nett produce of the latter. He mentions facts which seem to prove that the fertility of the land, in countries where properties are small, must be rapidly increasing, and substantiates this opinion by proving that the price of the land which is divided into small properties in the Prussian Rhine provinces is much higher, and has been rising much more rapidly, than the price of land on the great estates.' This is the most conclusive testimony which can be given in favour of small landed properties; it is in fact a practical and complete solution of the question, for upon this subject abstract reasoning will have little effect in convincing the great bulk of mankind. Even if a very strong case can be made out in favour of small properties, it will not convince a people like the English, who are accustomed to a different system; they will naturally say—If small properties are more advantageous, an estate if divided would realise a larger price; and therefore a large estate, whenever it was sold, would inevitably be partitioned into a great number of small properties. The reverse of this, however, has taken place in England; estates have not been more subdivided, for it is well known that within the last few years, in almost every district, a great number of small properties have gradually been absorbed, and combined into large estates; this apparently affords a very strong evidence that small properties are not in England economically advantageous.

It has been sometimes erroneously imagined, that if a political economist describes the advantages which may be conferred upon a nation by the possession of a class of peasant proprietors, he must therefore be anxious to introduce small properties into a country like our own by some compulsory measures. But those who are the most intelligent advocates of peasant proprietorships desire no more than that the government should not endeavour to foster one system of landed tenure more than another. If there is no such interference, then the development of any particular system would be spontaneous, and would prove its economical advantage. In England, many causes combine, not only to prevent the partition of large into small properties, but also to encourage the rapid absorption of the small properties, which were so numerous in former times. The conveyance of land in England is most cumbrous and costly; the title to a hundred acres of land may often be proved at as little expense and trouble as the title to a single acre. The cost of conveying a small estate is, therefore, in proportion to its value, much greater than the cost of conveying a large one. The law of England permits land to be entailed to such an extent, that a landed estate can be settled upon an unborn child; and hence a very considerable portion of the land of England is strictly hereditary property, and cannot be sold. This power of entail is defended, because it tends to preserve a landed aristocracy, since if our great landowners were permitted freely to sell their estates, a great number of those properties which have belonged to the same family for many generations would quickly be dispersed. It is not here the place to discuss the general policy of land entails, but there is one effect resulting from them which is very apparent. Owing to the fact that entailed land can rarely be sold, only a small portion of the land of England can properly be considered a marketable commodity. Many other motives besides pecuniary gain prompt a keen

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*Obstacles to the introduction of peasant proprietors into England.*

*Entails.*

*Effect of the system of entail upon the price of land.*

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desire to acquire land. The possession of a large estate confers upon a man much more social distinction and importance than the possession of an equal amount of wealth in some such investment as the funds. A large landed proprietor may almost claim some of the most highly prized of social honours: he becomes a county magistrate, and will probably, once during his life, be placed in the exalted position of high sheriff of his county. Landed property always confers considerable political influence; the monied man therefore knows, that if he purchases a large landed estate, he or at least some of his children will be lifted into a higher social position than they could ever hope to attain by the greatest success in commerce or trade. Moreover, the owner of land can follow those pursuits of a country life which are so thoroughly congenial to the tastes of Englishmen.

*The price of large and small estates not a measure of their comparative power of production.*

All these advantages combine to raise the price of land, and, consequently, land returns a much smaller interest than any other investment. The price of land is also materially increased, because the law of entail so greatly limits the quantity of land which is brought into the market. Hence we cannot with certainty conclude that cultivation by small proprietors is comparatively unproductive, because a large estate in England will realise a higher price, when sold as a whole, than when broken up into small properties. For the price which the estate, when sold as a whole, realises, is only partly due to the value of the land commercially considered. The other advantages we have enumerated, as belonging to landed property, may of course be regarded as of pecuniary value, and therefore increase the price of land. There can therefore be no probability that any considerable area of land in this country will be cultivated by small proprietors, for some time to come. If a much larger quantity of land should at some future period be brought into the market, in consequence of the removal of

any artificial impediments upon the transfer of land, then the price of land would be regulated, much more than it is at the present time, by the same causes which determine the value of other kinds of property; it would then be demonstrated whether or not the productiveness of land is increased by its division into small properties. If its productiveness were so increased, land would in England realise a higher price when sold in small portions. We think it would be most pernicious to attempt to create a class of peasant proprietors by compulsory enactments. The law which in France compels the equal division of landed property amongst the children of a deceased parent, is a most unjust and mischievous interference with the rights of private property. The evils caused by such a law are far more serious than any which can be attributed to the opposite policy, encouraged by English law, which fosters the preservation of large landed estates. We conceive it to be most important that every system of landed tenure should have an opportunity of being freely tried and tested; and a treatise on political economy could not be complete, unless it pointed out the advantages which other countries have derived from their land being cultivated by small proprietors, a class once most numerous in England, but now rapidly passing away.

We cannot dismiss this subject without enquiring into some of the social effects which result from peasant proprietorships, although such an enquiry may perhaps be considered more strictly to belong to social science, than to political economy. Even those who are most decided in their opinions as to the productiveness of England's industry, must feel that the condition of those who are employed in agriculture is most unsatisfactory; for there are few classes of workmen who, in many respects, are so thoroughly wretched as the English agricultural labourers. They are so miserably poor, that if they were converted into serfs to-morrow, it would be for the interest of their

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*Evils of a  
law of  
equal  
inheritance.*

*Social  
effects of  
the English  
system.*

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*Extreme  
poverty of  
English  
labourers.*

employers to feed them far better than they are fed at the present time. In all those localities which may not happen to be contiguous to the manufacturing districts, ten shillings a week may be regarded as the maximum of agricultural wages during the winter months. A moment's consideration will show, that such wages are barely sufficient to supply the first necessaries of life. Meat cannot be tasted more than once a week, and those who have to exist on this scanty fare are more exposed than any others to the inclemency of our trying climate. Such wages will not permit the slightest provision to be made, either for sickness, or the feebleness of old age. Throughout a large agricultural district with which I am intimately acquainted, I know that the great majority of the agricultural labourers have not saved a single penny; to them a life of toiling, and incessant industry, can offer no other prospect but to drag out a miserable old age; for then they will either be paupers in the workhouse, or they must come, as suppliant mendicants, for parish relief. But even the physical suffering which is associated with their poverty is not the worst feature of their condition; their ignorance is as complete as it is distressing. Improved schools, enormous educational grants, and a general zeal for instructing the poor, have failed to educate the agricultural labourers. The reason of the failure is obvious, and it is difficult to suggest a remedy. When children leave school at eight or nine years of age, to become plough-boys, the little that has been learnt is sure to be forgotten; and the consequence is, that in many large agricultural villages, there is not one young man who can read sufficiently well to understand a newspaper. Parents may be accused of neglecting their children's welfare; but how can we expect those who are so miserably poor, and who are ignorant themselves, and know not the value of knowledge, to sacrifice the two shillings a week that a child of eight or nine years of age may readily earn? Other countries,

*This ex-  
treme  
poverty  
produces  
extreme  
ignorance.*



no doubt, possess labourers who are equally poor, and equally ignorant; but the poverty and the ignorance is heightened, when contrasted with the accumulated wealth and the vaunted civilisation with which it is surrounded. We make these remarks in order to show, that even if the system of landed tenure in this country is productive of wealth, yet that the distribution of this wealth is so unsatisfactory, that those whose labour is instrumental in producing it are miserably poor, and their life in every respect most unenviable. They have, in fact, to work with the regularity of machines, without hope that their condition will be improved.

Let us now enquire whether the condition of an agricultural community is more desirable when the land is owned and cultivated by peasant proprietors. Before quoting any special instances, we may mention that the condition of a man who can enjoy the entire fruits of his own labour is in every respect superior to the condition of one who is simply a hired labourer, and who, consequently, has no direct interest in the work upon which he is employed. The faculties of the latter are never fully stimulated, his hopes are not excited by success, his energies are not called forth to contend with the difficulties and disasters to which every employment is liable; his life is, in fact, one of dull routine. It may be said that he is spared many anxieties, with which the labourer who is his own master has to contend. But it is almost a truism to assert, that these cares and anxieties are the most valuable instruments of education, and that without them the human faculties can never be adequately developed. These general observations may be corroborated by actual experience, at least in the case of an agricultural community. All writers on peasant proprietors bear the most decided testimony to their incessant and intelligent industry. In Switzerland, France, Flanders, and the Rhine-land, we are told that the small proprietors,

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*Social effects of peasant proprietorship.*

*Industry of labourers.*

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who cultivate their own land economise their time with the most scrupulous care; they earnestly strive to turn every half hour to the utmost possible advantage; they work early and late, and their labour exhibits a watchfulness, and a fostering attention, which is never acquired by hired labourers; magical is the influence which the feeling of property exerts, and truly indeed has it been said by Arthur Young, that it is potent enough to turn sand into gold, and convert a desert into a garden. So great is the industry of peasant proprietors, that some writers have alleged, that they are too industrious; that they are, in fact, too much engrossed in the business of life. But it is with reference to the prudential virtues, that they offer the most striking contrast to our hired labourers. The worst paid workmen in this country are so thoroughly reckless, that they seldom show any foresight for the future; and many, consequently, who are impressed with this fact, have maintained, that higher wages effect no permanent improvement in the condition of the poor. They do not save their increased earnings, but spend their money either in drink or luxurious living. And that this should be the case, can be a matter of no surprise whatever. There is no effect of ignorance more certain, than an almost entire absence of foresight; and the life of a hired labourer can exert no influence whatever towards cultivating any of the habits of prudence. His poverty is so great, that he, when he has the means, naturally indulges in somewhat better living; and even if he should, by dint of great sacrifice and exertion, accumulate a trifling amount of money, he very seldom has any eligible opportunity of investing these savings. No definite prospect is held out to him, that his savings will ever enable him to occupy a different social position. If a hired labourer saves twenty pounds, he has no chance of investing it as capital in some profitable employment; the only purpose to which he can devote it, is to place it in the savings bank, where he can

*Their prudential virtues,*

*which even in excess are preferable to English recklessness.*

obtain something below the current rate of interest. How much more powerfully will prudence be stimulated, if a definite prospect is held out, that a labourer might in the course of time, by means of his saving, acquire a small landed property! The value of such an acquisition to the labourer is not to be estimated by the amount of wealth with which it enriches him. It makes him, in fact, a different man; it raises him from the position of a labourer, and calls forth all those active qualities of mind which are sure to be exerted when a man has the consciousness that he is working on his own account.

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These remarks are corroborated by the unanimous testimony of the most competent authorities; for it has been repeatedly affirmed, that peasant proprietors are invariably a most thrifty class, and so anxious are they to accumulate capital, that the style of their living has often been erroneously supposed to denote poverty, when it is simply a result of great economy. The advantage to be derived from saving is brought most distinctly home to them. A small proprietor knows, that if he can save a few pounds, he shall be able to have another horse or cow, or perhaps some new implement, and he is able clearly to foresee the profit which he shall derive from such a purchase. Let a man once feel how efficient the wealth which he saves may become in producing more wealth, and he is sure in future to exert himself actively to accumulate capital. Mr. Browne, who was a few years since the English consul at Copenhagen, has made some most interesting observations with reference to the peasant proprietors of Denmark. He bears the most decided testimony to their thrift, and also to the superior comfort in which they live. Thus, he says, 'The first thing a Dane does with his savings is to purchase a clock, then a horse and cow, which he hires out, and which pays a good interest. Then his ambition is to become a petty proprietor, and this class of persons is better off than any in Denmark. Indeed, I know of no

*Evidence to  
prove the  
thriftiness  
of peasant  
proprietors.*

*Denmark.*

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people, in any country, who have more easily within their reach all that is really necessary for life, than this class, which is very large in comparison with that of labourers.'

*Mr. Jones's  
assertion  
that pea-  
sant pro-  
prietorship  
over stimu-  
lates popu-  
lation.*

A system of small landed properties has sometimes been condemned, because it is supposed to encourage a reckless increase of population. Upon this point the late Mr. Richard Jones was most strong in his denunciation; but although this political economist collected many most valuable facts, yet he was prone to make unsupported statements, and often called upon his readers to reject a theory, or to assent to some particular opinion, upon his own unsupported assertion. Mr. Jones says that the peasant proprietors are 'exactly in the condition in which the animal disposition to increase their numbers is checked by the fewest of those balancing motives and desires which regulate the increase of superior ranks, or more civilised people.' But he gives no reason for this opinion, nor does he attempt to support it by specific facts. Many other writers besides Mr. Jones have maintained that small landed proprietors must become gradually impoverished, in consequence of the continued division of the land amongst the children of each generation. It is not unfrequently assumed, that a man will marry directly he acquires a small landed property, a large family will have to be maintained, and that the father will be able, at his death, to make little or no provision for his numerous children, unless he either divides the land which he owns amongst them, or else leaves the land to one of his children heavily encumbered with annuities, to be paid to the rest. In order to disprove such suppositions, we will in the first place show that all *à priori* reasons would lead us to conclude that the acquisition of property will act more powerfully than any other circumstance to make a class prudent with regard to marriage; we shall, in the second place, adduce specific facts bearing upon the slow rate of the increase of population amongst peasant proprietors.

The most casual observer must have remarked that the poorest classes in this country show the greatest imprudence with regard to marriage. As a general rule, a man does not marry, in the middle and upper classes, unless he believes that he shall, at any rate, be able to give his children as good an education as he has himself received, and be also able to place them in a social position similar to that which he himself occupies. The majority of men are accustomed to some particular style of living, and they generally refrain from marriage, if the increased expenses of married life would compel them to live in a manner which would not give them, what has been aptly termed, 'their habitual standard of comfort.' But the very poor are not influenced by any such considerations—they are not restrained from marriage by a desire to preserve a certain standard of comfort. What standard of comfort could the miserable cottiers of Ireland have had? Those who are accustomed to poverty do not attempt to exercise any restraint with regard to marriage; and amongst such persons, population is only restrained by the great mortality which prevails amongst the very poor, and more especially amongst their children. But when a labourer becomes a small landed proprietor he is at once influenced by the same motives which render the middle and upper classes prudent with regard to marriage. A person in the middle classes appreciates the value of the position he occupies; and he will not marry, if marriage will so impoverish him as to render it necessary for him to resign his position. A small landed proprietor must be quite as forcibly convinced of the superiority of his own position compared with that of a hired labourer; and he will be equally careful not to marry, if he considers that the expenses of a family would force him to give up this position, and would compel him to sell his land, and return to the ranks of the ordinary labourer. We have, moreover, abundant evidence to prove that peasant proprietors are

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*Improbability of this statement.*

*Analogy of our upper classes.*

*Direct evidence.*

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*Sismondi's  
opinion.*

acted upon by these motives. Sismondi, perhaps more than any other writer, has been impressed with the evils which result to the poor from over-population, consequent on imprudent marriages; and his strong advocacy of peasant-proprietorships is principally based upon the conviction that the system acts powerfully to restrain population. His testimony with regard to France is extremely important, because in France the system of peasant proprietorship is put to the most severe test, by the operation of the law which forces the equal division of landed property. Sismondi says, 'There is no danger lest the proprietor should bring up his children to make beggars of them. He knows exactly what inheritance he has to leave them; he knows that the law will divide it equally amongst them; he sees the limit beyond which this division would make them descend from the rank which he has himself filled, and a just family pride, common to the peasant and to the nobleman, makes him abstain from summoning into life children for whom he cannot properly provide.'

*Mr. Kay's  
account of  
Switzer-  
land.*

Mr. Kay, who may always be relied upon as a most accurate observer, shows that the prospect of acquiring landed property makes not only those who are engaged in agriculture prudent with regard to marriage, but also exerts the same influence upon the labourers who are employed in the adjacent towns. Speaking of Switzerland, he says, 'In some parts, as in the canton of Argovie, for instance, a peasant never marries before he attains the age of twenty-five years, and generally much later in life; and in that canton the women very seldom marry before they have attained the age of thirty. Nor do the division of land, and the cheapness of the mode of conveying it from one man to another, encourage the providence of the labourers of the rural districts only. They act in the same manner, though perhaps in a less degree, upon the labourers of the smaller towns. In the smaller provincial

towns, it is customary for a labourer to own a small plot of ground, outside the town. This plot he cultivates in the evenings, as his kitchen-garden. He raises in it vegetables and fruit for the use of his family during the winter. After his day's work is over, he and his family repair to the garden for a short time, which they spend in planting, sowing, weeding, or preparing for sowing a harvest, according to the season. The desire to become possessed of one of these gardens operates very strongly in strengthening prudential habits, and in restraining improvident marriages. Some of the manufacturers in the canton of Argovie told me that a townsman was seldom contented until he had bought a garden, or a garden and house, and that the town labourers generally deferred their marriages for some years, in order to save enough to purchase either one or both of these luxuries.' Mr. Kay also proves, by the most precise statistical facts, that the peasant proprietors of the Prussian Rhine-land are extremely provident with regard to marriage, the ordinary age at which people there marry varying between twenty-five and thirty years. Numerous other facts might be adduced, to prove that a system of cultivation by peasant-proprietors is in every respect most satisfactory in its social consequences.

In contrast with these results, the effects of our own system of landed tenure may be correctly characterised in the following manner. The land is owned by comparatively few great landlords; it is occupied by tenants who have sufficient capital to cultivate large farms, and the labour is supplied by hired labourers, whose wretchedness is proverbial, and between whom and their employers there is none of that personal sympathy which can alone be secured by the feelings of common pecuniary interest. When the soil of a country is owned and cultivated by peasant proprietors, the efficiency of production is not interfered with; and we believe we have shown that the social and material condition of peasant proprietors is

*Effects of  
our own  
system con-  
trasted  
with that  
of peasant  
proprietors.*

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most satisfactory. Our own history, at least, proves that this class, formerly represented in this country by the ancient yeomanry, has ever been distinguished for its independence and its patriotism. We are, however, ready to admit that all the tendencies of the present age increase the improbability that peasant proprietors can ever again exist in this country as a numerous class; nor should we desire to attempt to create such a class by any compulsory means. But although a large area of land in this country is not likely again to be owned and cultivated by individual labourers, yet we believe, if land was owned and cultivated by associations of labourers, that all the benefits would be secured, and that many of the disadvantages would be avoided, which result from the system of peasant proprietorships. The rapid and successful extension of those cooperative institutions, which will be described in a succeeding chapter, makes us confidently believe that many large farms in this country, at no distant day, will be owned and cultivated by associations of labourers.

*Possible application of cooperative societies.*

*Serfdom in Russia.*

We have entered into rather minute details in our remarks on peasant proprietors, because the subject has a special practical interest at the present day. At the time we write these pages, the emancipation of the serfs in Russia is being rapidly carried into effect, and we think that no social change that has ever been introduced by a government is destined to be accompanied with more important or beneficial results. The serfs in Russia are supposed to number about 22,000,000; their condition has for ages been that of semi-slavery. Each serf generally occupies a small portion of land; and instead of paying the proprietor of the soil any rent, the serf was bound to give him a certain proportion of his labour, and to render him various other services. As long as the serf fulfilled his obligations, he had a claim to the plot of ground which he was accustomed to cultivate. The landed proprietor was, however, permitted to exercise upon



the serfs much of the tyranny with which, in feudal times, the lord oppressed his villeins. A Russian serf could not marry whom he pleased; labour was ruthlessly extorted from him by the stick and by other means of corporal punishment; and a trivial offence, perhaps never properly investigated, would often consign a serf to perpetual Siberian exile. The present Emperor of Russia seems determined to make every Russian serf a free labourer. This noble resolution has not, in our own country, received the praise it deserves. If the Emperor Alexander can successfully carry out this great work of emancipation, he may justly claim to be considered one of the greatest benefactors of mankind.

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CH. VI.

*Importance of emancipation.*

It is, no doubt, impossible to frame any scheme of emancipation which would give equal satisfaction to the landed proprietor and the serfs. A serf, directly he is declared a free labourer, seems to consider that the plot of land he has been accustomed to cultivate becomes his own private property; that he is entitled to cultivate it without the payment of any rent; and that he is entirely released from all his obligations to the landed proprietor. The landed proprietor, on the other hand, affirms, that all the land occupied by the serfs is his own property; and he maintains, that he gives permission to the serfs to cultivate some of his land, in exchange for their labour; he therefore says, if you deprive me of every claim to their labour, they can have no right to occupy my land, and it becomes entirely my own property. The Russian Government has, no doubt, striven to act in this matter with the greatest possible fairness; and we consider that no better or more equitable scheme of emancipation can be framed than the one which is likely to be adopted. According to this scheme, each Russian serf will obtain as his own property, not the whole, but two thirds of the plot of land which he has been accustomed to cultivate; and, consequently, each Russian serf seems destined to become a

*Difficulty of framing an emancipation scheme.*

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CH. VI.

*Prospect of  
the conver-  
sion of serfs  
into pea-  
sant pro-  
prietors.*

peasant proprietor. The majority of English writers look with dismay on a scheme of emancipation which would lead to such results, because in our own country it is generally believed, that peasant proprietors inevitably become miserably poor themselves, and are sure to bring the land into a wretched state of cultivation. An able writer in the 'Times,' who during April 1862 contributed four most interesting articles on the emancipation of the Russian serfs, appears to consider that all the political economists of Western Europe are hostile to the establishment of peasant proprietorships; and he confidently states that the principles of political economy have proved, that this system of landed tenure is disastrous both in its social and economical results. We have therefore been desirous to show, in this chapter, that some of the most eminent political economists have expressed themselves most favourably towards peasant proprietorships, and they at least will not consider that a scheme of emancipation ought to be condemned because it converts the Russian serf into a peasant proprietor.

## CHAPTER VII.

## METAYERS AND COTTIERS.

A VERY considerable portion of the land of Europe is cultivated by metayers, and nearly the whole of the soil of Ireland before the famine in 1848 was occupied by cottier tenants. A metayer, as the name implies, originally occupied the land on the condition that the landowner should receive one half the produce as his rent. The name is still preserved, although the terms of this tenancy have been much modified. Almost the whole of Tuscany is cultivated by metayers, who pay the landlord two thirds of the produce as rent; a metayer tenancy therefore now signifies, that a certain fixed portion of the produce should be paid as rent. Whether this portion should be one half, two thirds, or any other amount, seems chiefly to be regulated by the customs of different countries. Those who are only acquainted with English agriculture find it difficult to imagine the great extent of land which is cultivated by metayers. Before the revolution of 1790, nearly the whole of the land of France was rented by metayers, and even at the present time scarcely any other system of landed tenure is known in Piedmont, Lombardy, Tuscany, and other parts of the Italian peninsula.

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CH. VII.

*The me-  
tayer sys-  
tem.*

The cottier tenure is so anomalous that it is not easy to characterise it in a brief description. We may however say generally, that a landlord takes from a cottier in the form of rent the utmost possible amount. The cottier has only in fact left to him the means of bare subsistence.

*The cottier  
system.*

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CH. VII.

Cottier rents are nominal in pecuniary amount. These rents are in fact fixed so high, that it is impossible for the cottiers ever to pay them. The nominal amount of the rent far exceeds the whole produce which the land would yield. These tenants, therefore, are perpetually in arrear, and this gives the landlord the means of appropriating to himself the whole advantage of any unusually good crops.

*Comparison of cottier and metayer systems.*

We have classed metayers and cottiers together, because the same disadvantages in part belong to these two systems of landed tenure; but the results which arise from these tenures offer in many other respects a striking contrast.

*The metayer system exhibits the control of competition by custom.*

The metayer tenancy illustrates in a very remarkable manner the control which custom exerts over competition; for the fact that metayer tenure prevails throughout a country plainly indicates that many landlords sacrifice their own interests, in order to obey a custom; since it can be readily shown, that the rent of land, if regulated by competition, would in the majority of cases greatly exceed the metayer rents which are paid. And this will be true whatever may be the portion of the produce at which the metayer rents are fixed; for instance, in Tuscany two thirds of the whole produce is apportioned to the landlord. This is probably the highest metayer rent which is paid. The fertility of the soil of Tuscany must be such, that one third of the produce which is yielded by any land which is cultivated suffices to pay the expenses of cultivation, and also remunerate the tenant for his labour. If one third of the produce was not sufficient to do this, the land would be cultivated at a loss; since we suppose two thirds to be allotted to rent; and it would be impossible for the tenant to obtain a livelihood. But if one third of the produce yielded by inferior land is sufficient for the purposes we have just mentioned, then it is manifest that one third of the produce yielded by more fertile land would more than suffice, according to the rate of profit current in the country, to remunerate the tenant for the capital he

expends, and for his labour of superintendence. But when rents are regulated entirely by competition, a farmer cannot hope to obtain more than the average rate of profit, and, in such a case, the farmer who cultivates fertile land is not in a better position than a farmer who occupies land of inferior fertility. The landlord is able to appropriate to himself the whole advantage of the increased fertility, since, when rents are regulated by competition, they are adjusted in proportion to the fertility and other advantages which a particular farm may possess. When, therefore, metayer rents are paid, the tenants who happen to occupy the most fertile land possess, as it were, a beneficial interest, and the amount of this beneficial interest is proportioned to the fertility of the soil. We will illustrate our meaning by an example. Let us suppose there are two farms, which vary greatly in fertility, but which are cultivated by the application of an equal amount of capital. Let this amount be 800*l.*, and let it be assumed that the farmers consider they are adequately remunerated for their labour and capital if they realise a profit of twenty-five per cent., or, in other words, 200*l.* Suppose, in the first place, that the rents of these two farms are adjusted by competition, and that the amount of produce yielded by the two farms may be estimated at 1800*l.* and 1500*l.* respectively. If, therefore, the two farms paid rents of 800*l.* and 500*l.* respectively, there would in each case be 1,000*l.* left to the farmers; this would replace their capital, and leave them 200*l.*, or a profit of twenty-five per cent. as a remuneration for their own labour and capital. These farms therefore, if the rents were regulated by competition, would pay rents of 800*l.* and 500*l.* respectively. We will now examine what would occur if these two same farms, cultivated by the same amount of capital as before, paid a metayer rent of one third the produce; the produce from the two farms above supposed being 1800*l.* and 1500*l.*, the metayer rents would consequently be 600*l.* and 500*l.*

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CH. VII.

*Different profits of farmers*

*under the rack-rent and metayer systems.*

respectively. The worse farm of the two therefore pays the same rent as before, but the better farm pays a rent of 200*l.* less; therefore the metayer tenant who occupies the more fertile farm would have a beneficial interest which might be estimated at 200*l.* per annum. In any special case, the amount of this beneficial interest depends upon the productiveness of the land. The purport of this example has not been to prejudice the question, whether or not, under a metayer tenure, the landlords receive smaller rents, and the tenants are better off than if they occupied the land upon a rack-rent. Such a question can only be determined by considerations upon which we will proceed to remark. But the object we intend the above example to serve is to show, that when rents are regulated by a custom which fixes them at a certain definite proportion of the produce, then the rent paid by the most fertile soils is less in excess of that paid by the least fertile than it would be if both were let on rack-rent.

*Various  
arrange-  
ments of  
the metayer  
system.*

The arrangements connected with the metayer tenure vary greatly in different countries. The landlord almost always supplies a portion of the capital. Sometimes he provides the stock, the tenant buying the seed and implements. In Piedmont, the landlord pays the taxes, and repairs the buildings, and the tenant provides stock, implements, and seed. According to Arthur Young, the conditions of the metayer tenure in France before the revolution, were far more complicated and variable than at the present time. In Champagne the landlords commonly find half the cattle, and half the seed, and the metayer, labour, implements, and taxes: but in some districts the landlord bears a share of these. In Roussillon, the landlord pays half the taxes; and in Guienne, from Auch to Fleurne, many landlords pay all. Near Aguillon, on the Garonne, the metayers furnish half the cattle. But the metayer tenures of all countries are controlled by the principle, that the conditions of the tenure are arranged according

to an undeviating usage. Thus, if it is customary in Piedmont that the landlord should pay the taxes, repair the buildings, and receive two thirds of the produce as rent, it would be an unheard-of thing for a metayer tenant to have his rent raised to three fourths of the produce, or to be displaced from his occupation, because some other person offered the landowner a higher price for the use of the land. The whole tone of public feeling would prevent the landlord accepting such an offer; in fact, persons would be restrained from making the offer by feelings similar to those which prevent a barrister publicly announcing that he will hold briefs at one half the customary fees. Land is often retained for many generations in the same family, by metayer tenants; they almost regard the land as a patrimonial possession, because they believe that they will not be displaced from its occupation, and that the conditions on which they hold it will remain unchanged. Metayer tenants therefore may justly, in a modified sense, regard the land as their own property, and consequently to this tenure belong in part all those advantages which, as we showed in the last chapter, result from small properties when cultivated by their owners. We say these advantages only belong in part to the metayers, because many of those motives upon which depend the advantages of peasant properties only act with limited effect in the case of a metayer tenure. For instance, a metayer feels that he has a claim to only a portion of the fruits of his labour; if he is more industrious, and his land is made more productive, the landlord takes a portion of this increased produce, therefore the feeling of self-interest which stimulates the active and intelligent industry of the peasant proprietor cannot act with similar force upon the metayer. But there is a much more serious objection than that which we have just noticed. Under a metayer tenure, the land is almost sure to be badly cultivated, for the nature of this tenure opposes the application of capital,

*Difference  
between  
metayers  
and peasant  
proprietors.*

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either by the landlord or by his tenant. For instance, if the land is drained at the expense of a metayer landlord, whose rent is one third of the produce, the land is of course made more productive, but the landlord only secures one third of the increased produce; the remaining two thirds is gratuitously given to the tenant, who has borne none of the expense. If, on the other hand, the land was drained at the sole cost of the tenant, he, in a similar manner, will only obtain two thirds of the advantage; the remaining one third would be gratuitously presented to the landlord.

*Inefficiency  
of metayer  
system  
generally  
due to  
want of  
capital.*

Whenever the metayer system is inefficient, it is no doubt principally due to this cause; in fact, the strongest opponents of metayer cultivation most strenuously insist on the great want of capital which it exhibits. This objection may be, and is, no doubt, overcome in those countries where the metayer farming is most satisfactory; for when the application of capital is required, there is no reason whatever why the metayer landlord and his tenants should not equitably arrange between themselves the particular amount which each party should respectively spend. If the metayer rents were one third of the produce, then it might be equitably arranged that one third of the cost of such a useful improvement as drainage should be borne by the landlord, and the remaining two thirds by the tenant. The terms of the contract might be varied under different circumstances; the tenant ought not to pay so much, if there was any chance that his term of occupation would be limited. Arrangements similar to these are frequently made between English landlords and their tenants, when money is borrowed from the Land Improvement Companies, for the purpose of carrying out works of permanent utility. Although we have pointed out that a metayer might not have the same motive as a peasant proprietor has to improve the land by incessant industry, and by judicious application of capital, yet, on the other hand, it must be remembered that the labour of the metayer will be, in all



probability, much more efficient than that of our own agricultural labourers, who simply work for hired wages ; they have no interest in the work in which they are employed, they have no motive but to work with just sufficient skill and regularity to avoid being dismissed. To them it is a matter of little moment whether their employer's profits are large or small ; the indolence and carelessness which are thus engendered cause a loss to an employer of hired labour which is rarely adequately appreciated. In metayer cultivation, little hired labour is employed. A metayer generally occupies no more land than he can himself cultivate with the assistance of his family. He therefore, far more than the hired labourer, is stimulated to be industrious, because the profits which his exertions produce are at any rate in part his own.

The most contradictory opinions with regard to the results of metayer farming have been expressed by those who have observed it in various countries. These different results may, no doubt, be attributed to the particular customs which prevail with regard to the metayer tenures in different countries. Some of these customs have already been noticed. We believe that the efficiency of the metayer tenure depends on the extent to which the customs of a country facilitate the application of capital to the land. The efficiency of the metayer cultivation also, in a great degree, depends upon the security which the tenant may have that he shall not be disturbed in the possession of his holding. It is hopeless to expect that there ever can be good farming when the cultivator is a mere tenant at will, who is ever liable to have his rent raised in proportion to the improvement produced on the land by either his skill or his capital. The evil has been partly remedied in England by the leasing of farms at a rack-rent for a period of years which varies from seven to twenty-one ; but, even under this system, enterprise on the part of the farmer is much discouraged ; for it too frequently happens

*Contradictory opinions on the metayer system due to variety of customs in different countries.*

BOOK II.  
CH. VII.

that his rent will be raised at the expiration of his lease if he has made his farm more productive. This evil is remedied by the metayer tenure; for, as we have before remarked, a metayer tenant is seldom displaced, and a rent, which is fixed at a certain definite portion of the produce, gives the tenant a beneficial interest in the increased productiveness of the soil. We will now proceed to consider how far our general *a priori* remarks upon metayers are corroborated by the facts which have been derived from experience and observation. Most English writers on this subject, including Arthur Young, Mr. Mc Culloch, and Mr. Jones, have been unsparing in their denunciations of the metayer system; they assure us that it causes the land to be wretchedly cultivated, that it deprives the landlords of half the rent they might obtain under a different tenure, and that it causes the metayers themselves to be more impoverished and more wretched than ordinary labourers. But these writers have principally formed their opinions by observing the condition of the French metayers. French agriculture does not, however, afford a fair test of the effects of metayer farming; for it there labours under many disadvantages which do not operate in other countries. Mr. Jones, for instance, supports his opinion by quoting Turgot; but Turgot spoke of the country before the French revolution. Then the exclusive privileges of the French nobility exempted them from direct taxation, and the most burdensome imposts were thrown entirely upon the metayer tenants. But in Piedmont it is an essential condition of the metayer tenure that taxes should be paid by the landowner. In fact, one passage in Arthur Young's own work is sufficient to explain all the defects of the French metayer agriculture. He says that in Limousin and Angoumois (the provinces which Turgot administered, and from which he formed his impression of the metayer system) 'the metayers have no virtual fixity of tenure: whereas the metayers of Italy claim fixity of

*Unsatisfactory nature of metayer tenure in France.*

tenure as an essential condition of their contract.' 'Again, in Limousin,' Arthur Young tells us, 'the metayers are considered as little better than menial servants, removable at pleasure, and obliged to conform in all things to the will of the landlord.' Under such circumstances the system must in every respect work badly, and the metayers themselves must inevitably be poor and wretched.

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The metayer tenure of Italy strikingly contrasts with that of France, both in its results and in the nature of the contract. Almost the entire land of Lombardy and Piedmont is cultivated by metayers. The excellence of the agriculture in these countries is proverbial; in fact, it is not surpassed in any country in the world. This excellence is not due to any peculiar natural advantages. The soil of Piedmont is scarcely of average fertility, and Lombardy, it is popularly believed, has for years been exposed to intolerable oppression by its Austrian rulers. Bad government is usually supposed to cause the impoverishment of a country. The Lombard system of agriculture must, therefore, be singularly efficient; for Lombardy has continued one of the best cultivated and most productive countries during the whole period through which, as we are told, it was oppressed by Austrian tyranny. In Lombardy and Piedmont the land is not so much subdivided as in France; a metayer farm seldom exceeds sixty, but is never less than ten acres. The farm buildings are models of convenience and comfort. Competent observers affirm that nothing can exceed the skill and economy displayed in the management of the land. Chateaufieux, who is an excellent authority, says—'In Piedmont and Lombardy the rotation of crops is excellent. I should think no country can bring so large a portion of its produce to market as Piedmont. Though the soil is not naturally fertile, the number of cities is prodigiously great. The agriculture must therefore be eminently favourable to the nett, as well as the gross produce of the land.' Again,

*Good results of the metayer tenure in Lombardy,*

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CH. VII.

he remarks—'In no part of the world are the economy and management of the land better understood than in Piedmont, and this explains the phenomenon of its great population and immense export of provisions.'

*and in the  
valley of  
the Arno.*

In the valley of the Arno, the metayer farms are much smaller than in Piedmont and Lombardy, their size varying from three to ten acres; and yet, in spite of this great subdivision, numerous travellers have described the valley of the Arno as cultivated with singular care and skill, and as presenting altogether a most prosperous appearance. The holdings are so small that the homesteads of the metayers are situated at a short distance from each other. We are assured that these homesteads appear to be most neatly kept and have a thoroughly comfortable aspect, and the metayer peasants in this valley are well and tastefully dressed. It is true that English writers have said, if you enter the house of a metayer, he does not seem to live as much at his ease and to possess the same luxury as the farmers of other countries, but it is most unreasonable to make such a comparison. A metayer in the valley of the Arno, who, we are told, cultivates his five or six acres of land, ought not to be contrasted with our own farmers who possess large capitals; such a metayer is essentially a labourer, he cultivates the land without the assistance of hired labour, and therefore if we wish fairly to compare the condition of an agricultural population in a metayer country with its condition under a different system of landed tenure, we ought to contrast the metayers not with capitalist farmers but with agricultural labourers working for hire. If this comparison is made, there certainly can be no doubt but that the metayers of Italy in their social and economical condition are in every respect greatly superior to our own agricultural labourers.

*Kindly feel-  
ing between  
landlord  
and tenant*

Chateauvieux bears the most important testimony to the beneficial influence exerted upon the landlords by a metayer tenure. Nothing, in fact, seems to enforce with so

much practical effect the popular maxim of the present day, that property has duties as well as rights. The following very intelligent remarks are made by Chateauvieux: 'The metayer system constantly occupies and interests the proprietors, which is never the case with great proprietors, who lease their estates at fixed rents. It establishes a community of interests, and relations of kindness between the proprietors and the metayers—a kindness which I have often witnessed and from which result great advantages in the moral condition of society. The proprietor under this system, always interested in the success of the crop, never refuses to make an advance upon it, which the land promises to repay with interest. It is by these advances, and by the hope thus inspired, that the rich proprietors of land gradually perfect the whole rural economy of Italy. It is to them that it owes the numerous systems of irrigation which water its soil, as also the establishment of terrace culture on the hills—gradual but permanent improvements which common peasants, for want of means, could never have effected, and which could never have been accomplished by the farmers, nor by the great proprietors who let their estates at fixed rents. The metayer system therefore forms of itself that alliance between the rich proprietor, whose means provide for the improvement of the culture, and the metayer, whose care and labours are directed, by a common interest, to make the most of these advances.' Sismondi, who was a resident metayer landlord, speaks in warm approval of the system. He proves by the most definite facts that under the metayer tenure the land is well cultivated, and that the condition of the metayer tenants is in every respect most satisfactory.

The object we have had in view in making these remarks upon the metayer tenure has not been to propose its introduction into England; this, even if desirable, we well know is impossible, for it is the fundamental principle of this tenure, that the rent of land should be

BOOK II.  
CH. VII.

*under the  
metayer  
system.*

*Impracticability of introducing this system into England.*

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CH. VII.

regulated by custom and not by competition. But custom is each year exercising less influence upon the commercial arrangements of our own country; and rents, profits, and wages are each year apportioned more completely in accordance with competition. We have, however, been chiefly induced to make these remarks, because the prejudice of English writers against every system of landed tenure different from our own has been so great, that it is commonly assumed that the metayer tenure produces unmixed evils in the countries where it exists, and that these countries can never be greatly improved until it is replaced by a system of cultivation resembling our own. The facts we have mentioned are sufficient to disprove such an opinion, for we believe we have established the following propositions:—that the metayer system of cultivation is in many instances extremely efficient;—that the metayer tenants are generally in a condition greatly superior to our own day-labourers—and, that the metayer landlords are often induced to perform those duties pertaining to landed property which are too frequently neglected by the landowners of our own country. Without wishing, therefore, to advocate any Utopian scheme for the introduction of this tenure into England, we still think it very important that its merits as well as its defects should be known.

*Cottier  
tenure.*

It has already been stated that we intend to describe the cottier and metayer tenure in the same chapter, because the former system of cultivation exhibits, in an aggravated form, many of those defects which belong to the latter. The cottier tenure has existed on a far more extended scale in Ireland than in any other country, for before the famine of 1848 nearly the whole of the land in Ireland was cultivated by cottiers, and even at the present time they occupy a very considerable portion of it. We shall chiefly confine our remarks to the cottiers of Ireland, and these may be described as peasant cultivators; for they rent the land directly from the landowner,

*Ireland.*

and cultivate it by their own labour. The produce of the land is, therefore, as in the case of the metayer tenure, entirely divided between the landlord and the cultivator; but there is a fundamental difference between the metayer and the cottier tenure. The rent which the metayer pays is definitely fixed by custom; on the other hand, the rent which the cottier pays is entirely regulated by competition. Custom also gives to the metayer fixity of tenure, but no such fixity of tenure can be claimed by cottiers; they compete against each other for the possession of a plot of land, and the landlord is only anxious to obtain those tenants who will give him the highest rents. Now the rack-rents, which are paid by the large capitalist farmers in England, are regulated by competition; and it may therefore be asked—Can there be any essential difference between rack-rents and cottier-rents? There is this essential and very important difference; a rack-rent is determined by the competition of capitalists, whereas a cottier-rent is determined by the competition of labourers. The consequences of this distinction we will proceed to explain. When farmers apply large capitals, as in England, to cultivate their farms, they expect to obtain the ordinary rate of profit for their capital, and for their labour of superintendence; it is, therefore, quite impossible that the rent paid by English farmers could long continue so high as to prevent this ordinary rate of profit being received, for if this were so, capital would not continue to be invested in farming, but would inevitably be applied in other employments, where the ordinary rate of profit could be secured. Rack-rents, therefore, are kept as it were in a position of stable equilibrium by the competition of capital, for competition of capital signifies that men are eagerly anxious to invest their capital to the greatest possible advantage; and consequently, a rack-rent is in this manner so adjusted, that farming is neither much more nor much less profitable

*Cause of the difference between rack-rents and cottier-rents.*

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CH. VII.

than other occupations. In the case, however, of a cottier tenancy, it is population, and not capital, which competes for the land. The Irish cottiers, for instance, are miserably poor peasants, who possess no capital except one or two tools and the scanty furniture of their wretched hovels. When, therefore, they compete for a plot of land, it is absurd to suppose that they calculate the rent which they are willing to pay, by considering whether their capital would secure a higher rate of profit in some other investment; they are themselves fit for no other employment, and all the capital they possess would scarcely realise more than a nominal sum.

*Disastrous effects of the cottier system upon Irish labourers.*

To a cottier, the possession of a plot of land is not a question of profit, but subsistence; and consequently, in any district, the more numerous is the peasantry, the more actively will the land be competed for. The peasantry of Ireland were so long accustomed to poverty, that they were satisfied if they could occupy a plot of ground, and obtain from it just sufficient food to provide a bare subsistence; they had no habitual standard of comfort; every adult peasant married, and a want of food, with its consequent diseases, was the only check upon population. Such being the condition of the Irish peasantry, it may be naturally supposed that cottier rents were forced up to their highest possible point; the cottier could only obtain just sufficient to live upon, and the whole remaining produce was paid to the landlord as rent. The pecuniary amount of these cottier rents may be regarded as merely nominal; a peasant was so anxious to obtain a plot of ground, that he cared not what rent he offered for it; he well knew that the landlord, whatever was the nominal amount of rent, must leave him sufficient to live upon. And thus we learn, from the evidence taken before Lord Devon's Irish Poor Law Commission, that the nominal amount of many of these cottier rents exceeded the whole produce which the



land yielded, even in the most favourable season. The cottier was consequently in constant arrear to his landlord; the landlord had of course a legal right to distrain for the rent, but such a remedy was of no value, for the whole property of the cottier was scarcely worth seizing. Neither could the landlord gain much by resorting to eviction, for the evicted tenant would only be replaced by another tenant of the same character, whose arrears of rent would accumulate with similar rapidity. And although eviction is a legal right of the landlord, yet he was restrained from exercising this right by the powerful motive of personal safety. Assassination was the retribution with which the cottiers of Ireland not unfrequently punished an evicting landlord. The economical condition of no other country has ever been so unsatisfactory as was the condition of Ireland under the cottier tenancy; for the cottiers, having taken the land at a rent which it was impossible for them to pay, had no motive whatever to be industrious; if by skill and labour the land was rendered more productive, the increased produce was absorbed in the rent of the landlord. The rents were, in fact, fixed so high, that whether the seasons were favourable or not, whether the land was well or badly cultivated, the cottier tenants could never expect to obtain for themselves any more than a bare subsistence; hence it has been aptly remarked, that the Irish cottiers were the only people in the world whose condition was so deplorable that they gained nothing by being industrious. No scheme could possibly be devised which would act more effectually to impoverish the people, and throw the land into the most wretched state of cultivation. The progress of Ireland cannot be marked by a surer sign than by the gradual abolition of the cottier tenure.

In Ireland there was also a subsidiary kind of tenure, termed conacre. If a landlord required any labour to be done on his estate, it was a frequent practice for him to

BOOK II.  
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*Assassination.*

*The direct tendency of the cottier system is to impoverish the people and lower the cultivation.*

*Conacre.*

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CH. VII.

*A feudal  
tenure.*

pay the labourers he employed, not by money, but by giving them a plot of manured ground rent free; the plot thus held, on the condition that the tenant should give the landlord so much labour, was termed *conacre*. This tenure was feudal in its character; for during the middle ages, a great portion of the cultivated land was granted to tenants on the condition that they should be bound to perform certain personal services for the landowner, or, as he was then termed, the lord. These personal services consisted either in providing the lord with mere ordinary manual labour, or else with men and weapons for war-like purposes.

*Tenant-  
right of  
Ulster.*

In Ulster a different kind of landed tenure prevails, in consequence of tenant-right being established in that portion of Ireland. The Ulster tenant-right has no legal sanction, it is simply enforced by public opinion, and the landlords grant the privilege because they fear to encounter the consequences which a refusal might entail. As we proceed to explain the nature and meaning of tenant-right, we shall show that a tenant-right may exist, not only with a cottier, but also with a rack-rent tenure. In the case of a rack-rent, a tenant-right may be proposed in order to meet a defect which seems inseparably connected with a system of landed tenure like our own, the chief characteristic of which is, that the rents are adjusted by competition, and that land is leased at fixed rents for only a limited term of years. The defect we allude to has already been pointed out, and it is simply this: under such a system the land has seldom a fair chance of being properly cultivated, for a tenant would often effect great improvements in his farm, by the application of increased skill and capital, if he could feel any security that he should be permitted to enjoy the full advantage of the improvement at the expiration of his lease. A tenant cannot be expected to invest capital almost solely for the advantage of his landlord; and yet

under our present system he might very possibly do this, for when a new lease is granted, his rent will very probably be raised in proportion to the extent to which the farm has been improved. The object of a tenant-right is to give the tenant a legal claim to be compensated, when leaving his farm, for any improvements he may have effected in the land, either by his skill or his capital. If such a tenant-right were practicable, it would in many respects be very desirable, for it would exert a most decided influence in promoting good agriculture, by encouraging the enterprise of the tenant farmer. The landlords would no doubt urge, that if a tenant-right were established by law, the privileges of private property would be unjustly interfered with. They would doubtless say, we ought not to be compelled to let our land hampered with conditions to which we object; we do not compel any tenant to rent our land, and if he is willing to rent it from us without a tenant-right, the condition cannot be justly forced upon us. But in answer to such arguments, it may be rejoined, that the interest of the nation demands that the land should be properly cultivated, and as long as there is no confiscation of private property, the law has a perfect right to interfere, if it can be proved that without such interference the resources of the land can never have a fair chance of being properly developed.

In England tenant-right has never been demanded, and the question has never excited much practical interest; in Ireland, on the contrary, the people have loudly claimed tenant-right as a most precious privilege, and for years there was no subject which excited a more angry controversy. But the Irish tenant-right may be regarded as essentially a part of the cottier tenure, and the purposes which a tenant-right fulfils when it exists with a cottier tenancy are very different from the effect which a tenant-right produces if engrafted on a rack-rent tenure. It is this difference which explains why tenant-right has

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CH. VII.

*Advantages which might be produced by a tenant-right in England.*

*Irish tenant-right connected with the cottier tenure.*

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CH. VII.

not been proposed in England, but has been so eagerly demanded in Ireland. It has been previously stated that there is an essential distinction between these two tenures; a rack-rent is determined by the competition of capital, a cottier-rent is determined by the competition of population. When a cottier tenure prevails, the outgoing tenant receives a certain sum from the incoming tenant, for the goodwill of the occupation. This payment is not even pretended to be made in order to remunerate the outgoing tenant for any improvement he might have effected on the land. If the payment served this purpose, there would manifestly be no essential difference between a cottier or a rack-rent tenant-right. But the payment is made by the incoming tenant in order to secure for himself the occupation of a plot of land; and the whole question of the justice or injustice of such a tenant-right turns upon this consideration, whether the goodwill of the occupation of the land belongs to the landlord or the tenant. We think there can be no doubt that it is the sole property of the landlord. The incoming tenant is willing to make the payment, not because it may be a profitable investment of capital; his object in obtaining a plot of ground is, that he knows that it will provide him with the means of subsistence; for, let him once be settled on a plot of ground, he feels assured that the landlord must leave him enough of the produce to live upon, and therefore he is willing to secure a small occupation of land by bribing the former tenant. He is prompted to do this by the same motives which induce him to offer the landlord a rent which he full well knows can never be paid. But the fact that such a tenant-right, which is neither just nor legal, can be maintained, is a sad evidence that the social condition of Ireland has been so deplorable, that a right could be established by terrorism with as much certainty as by law.

*Injustice  
and evil of  
the Irish  
tenant-  
right.*

## CHAPTER VIII.

## POPULAR REMEDIES FOR LOW WAGES.

THE great mass of the labouring population, in even the most prosperous and civilised countries, is so poor, that a philanthropic sympathy is excited, and remedies are constantly being proposed with the object of improving the condition of the poor. The practical utility of political economy cannot be better illustrated than by applying its principles to test their remedies. When this is done many of them will prove to be vain and illusory, and it will be shown that these remedies not unfrequently cause the opposite effects to those which they are intended to produce by increasing the poverty they seek to alleviate. Strikes and cooperative societies are the two remedies for low wages which, at the present time, excite most public interest, and in the efficiency of which different sections of the labouring class place most faith. We shall therefore devote a separate chapter to the influence which may be produced by strikes and cooperative societies. But before we do so, it will be well to consider some of the other remedies which excited much attention in their day, and in which many people still place great confidence.

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CH. VIII.

*Remedies  
for low  
wages are  
often il-  
lusory.*

If our readers revert to the chapter in which the laws of wages were discussed, it will be perceived that the following principles can be applied to test the efficiency of any of the means which may be proposed to raise wages. The remark has frequently been made that the capital of the country provides its wage-fund. This

*Principles  
by which  
they must  
be tested.*

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CH. VIII.

*Do they  
tend to in-  
crease  
capital or  
to diminish  
population?*

wage-fund is distributed amongst the whole wage-receiving population, and, therefore, the average of each individual's wages cannot increase unless either the number of those who receive wages is diminished, or the wage-fund, which, in other words, may be described as the capital of the country, is increased. Therefore, with regard to all questions concerning a general rise of wages, we should first endeavour to discover whether the agency by which this rise is intended to be effected will exert any influence in increasing either the capital of the country or in diminishing the number of the labouring population. If we can prove that such an influence will not be exerted, we may conclude that a general rise of wages cannot take place. In the consideration, however, of such a question several precautions must be carefully observed. For instance, it has been said that the produce of labour is divided into two shares; one of these shares is termed the profits of capital, and the other share is termed the wages of labour; therefore, *cæteris paribus*, if wages increase, the share apportioned to capital, or, in other words, profits, must diminish. Hence it may be concluded that, when wages increase, profits must decrease. But, before admitting such a conclusion, it is necessary to enquire whether circumstances may not occur which will enable a rise of wages to take place without being accompanied by any decrease in profits. If, for instance, labour is made more efficient by the labourer becoming more skilful and more energetic, the produce of labour will be increased, and the share allotted not only to labour, but also to capital, might be augmented. If, therefore, any method is suggested by which it is proposed to increase wages, it is most important to endeavour to discover whether the proposed increase will be taken from the profits of capital or from the additional wealth produced by making labour in any manner more efficient. In the first case, the rise of wages cannot be permanent; the nature of the rise, as

*Is the in-  
crease of  
wages ex-  
pected from  
a diminu-  
tion of  
profit or an  
increase?*

it were, creates its own destruction—the amount of capital accumulated depends on the inducement to save. If, therefore, profits are diminished, there is not so great an inducement to save, and the amount of capital accumulated will decrease; the wage-fund will consequently be diminished, and there will be a smaller amount to distribute amongst the labouring classes. The practical importance of this consideration will be shown when discussing the subject of strikes. We will now proceed to consider in detail some of the popular remedies for low wages.

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*efficiency of  
labour?*

Our own statute-book proves that the attempt has frequently been made to regulate wages by law. The enactments which have been passed with this object illustrate the shifting policy of our Government. On one occasion, when the employer is to be favoured, a law is passed limiting the amount of wages which the labourer is to receive. When the employed is to be protected, the employer is forbidden to offer the labourer less than a certain remuneration. Such legislation is always either futile or mischievous. If a law was enacted to-morrow which provided that no able-bodied agricultural labourer should receive less than fifteen shillings a week, our philanthropists would, no doubt, applaud the measure, and, so little is political economy understood by those who profess it, that even the Social Science Association would probably pay homage to the statesman who should introduce such benevolent legislation. If a tenant farmer, who now pays his labourers ten shillings a week, was legally compelled to raise these wages to fifteen shillings a week, the expenses of his farm would be greatly increased, and his profits would, in a corresponding degree, be diminished. The farmer would therefore say—Why should I continue to cultivate my farm at a comparative loss? Before my expenses were arbitrarily increased, I was not realising more than the ordinary profits of trade. I will therefore remove my capital as quickly as possible to some

*Attempts to  
regulate  
wages by  
law*

*are always  
futile or  
mischievous.*

*Case of  
farm la-  
bourers c.c-  
amined.*

BOOK II.  
CH. VIII.

*Impracticability of raising their wages by legislation.*

more lucrative employment. But it may be said, there are two ways in which the farmer might be compensated for the increase of his expenses—his rent might be reduced, or the price of agricultural produce might rise. If he were compensated by a reduction in his rent, there are those who, no doubt, would consider that the legislation was successful, because they might think that it would be most desirable that a certain amount should be taken from the rent of the landlord in order to improve the condition of the agricultural poor. It may, however, in the first place be remarked, that when a law produces these results, the private property of one class is confiscated and distributed amongst another portion of the community, and it is difficult to overestimate the serious injury which an unjust confiscation of private property inflicts upon the well-being of a state. But if no reduction of rent were granted to the farmer, and if he were compelled by law to pay high wages to his labourers, he could not continue to cultivate his farm without sacrificing his property, unless he were compensated by a rise in the price of agricultural produce. But if agricultural produce advances in price, food becomes dearer and the labourers would thus lose a great portion of the advantage which they might hope to obtain from their wages being regulated by law. There are, however, other considerations which will more fully exhibit the futility of such legislation. If the wages of agricultural labour were raised in the manner we have supposed, a rapid increase of population would be at once stimulated. Consequently in a few years the number of those competing for employment would be greatly augmented; the wages, therefore, of every employment would gradually be reduced to the lowest limit permitted by law, and ultimately a large surplus of unemployed population would be thrown as a burden on the poor-rates of the country. Two reasons have induced us to take the example of agriculture in order to illustrate the effects of a legislative interference



with wages. In the first place the remuneration received by agricultural labourers is so low, that it may be thought they have the first claim to be protected; secondly, interference in this case might be popularly advocated because it may be thought that the increased remuneration could be entirely provided out of the reduction in the landlord's rents.

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The investigation would have been more simple if we selected an example not involving the element of rent. Suppose the Factory Acts which control the number of hours that men should be employed, and the number of hours the children should be at school, had also declared that wages throughout the factory district should be increased twenty per cent. If the manufacturers were not compensated by higher prices for the increased cost of production thus enforced upon them, their profits would of course be reduced; they would withdraw their capital from the trade, and we should in time be supplied by foreign countries whose labour was cheaper. So keen is the competition at the present time between different countries in many branches of trade, that it is quite possible to conceive that an unnecessary impediment imposed in this country would give a foreign country such an advantage that we could not compete against it. If, therefore, wages in any particular branch of industry were forced up by Government interference, the labourers might very possibly altogether lose the employment to which they had been accustomed.

*Case of  
wages of  
manufac-  
turing  
mechanics.*

To provide work for the unemployed is a service which many think they have a much greater right to demand from the Government than the regulation of wages by law. We will trace some of the consequences that would ensue, if every applicant had a right, not only to demand work from the Government, but to receive the ordinary wages. When such a privilege was first granted, it might prove very beneficial to the labouring classes, and would

*Effects of  
granting a  
legal right  
to employ-  
ment at the  
ordinary  
wages.*

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CH. VIII.

*The effect  
might be  
at first  
beneficial,*

not probably be injurious to the general community; but if the privilege were continued, its ultimate effects would no doubt be most disastrous to the nation. If the Government were compelled to find work for the unemployed, it would of course be necessary to provide the money by increased taxation. If this increased taxation was supplied entirely from capital, the wage-fund would not be augmented, but it would, in fact, only be distributed by different owners. The wages which are now paid by the Government would have been before paid by individual employers, and therefore the labouring classes would not in the aggregate have a greater amount of wages distributed amongst them than they were accustomed to receive. But increased taxation, in a country like our own, will only be paid to a very limited extent out of capital. If the income tax were doubled; the additional 9,000,000*l.* which would be thus obtained would be almost entirely saved from personal expenditure. An employer would rarely be induced to discharge workmen because the income tax was increased. There is therefore, in the first instance, a real gain for the working classes; if the wages paid to labourers by the Government are obtained, not from capital, but from a diminution in the personal expenditure of the tax-payers. This benefit will often not be confined to the labourers; for a Government may frequently increase the wealth of a country by applying a loan, or increased taxation, to public works, which would not be carried out by private enterprise. It therefore appears that, if a great number of labourers were thrown out of work by some sudden and unavoidable cause, a Government is perfectly justified in promising, as a temporary expedient, to find work for the unemployed. Such a policy need not in any way cripple the productive resources of the country, because the money which is paid away by the Government in wages will not, in the first instance, be provided out of the capital of the nation. The

*and might  
justify such  
a measure  
in case of  
temporary  
emergencies;*

most serious consequences, however, will ensue, if the Government should continue to give employment to all applicants; for population has an indefinite power to increase; and, therefore, no limit can be assigned to the numbers which Government will be compelled to employ, if it engage to give work to all those who applied for it. If Government offered such assistance to the working classes, there can be no doubt that, in the present state of society, an increase in population would be so powerfully stimulated, that the number of those seeking employment would be constantly augmented, and at last the resources of the nation would be strained to the utmost to provide the wages which the Government would be called upon to pay. This is no imaginary supposition, for statistics have demonstrated that the lower classes of society marry with utter recklessness. If they can live when they first marry, they are perfectly contented; the additional expenses which a family entails are not thought of. If, therefore, Government found work for all applicants, marriages amongst the labouring classes would be so encouraged, that increase of population amongst them would no longer be restrained by any checks. The State, therefore, could not continue to find work for the unemployed, unless a law was passed, which should place some checks upon population. The absolute necessity of this precaution is shown in our own system of Poor Laws. Every parish is bound to provide all those who are charged upon it with food and clothing sufficient to protect them against physical want. But those who claim this relief can be compelled to reside in the union, where they are subjected to certain restraints; man and wife, for instance, are not permitted to live together; if this were allowed, union workhouses would become establishments for breeding hereditary paupers, and the poor-rate would soon absorb the whole wealth of a parish. It therefore appears that there is a fundamental difficulty connected with all

BOOK II.  
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*but must be  
disastrous  
if the mea-  
sure were  
permanent,*

*because  
there would  
be no check  
on popula-  
tion.*

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CH. VIII.

attempts to improve the material condition of the poor by any permanent system of relief; for population is encouraged by granting pecuniary assistance to the poor, and consequently the money required for such a scheme of general relief would constantly absorb an increasing amount of wealth. This difficulty can only be met by placing some check upon population; and it would be impossible for our present Poor-Law system to continue, if man and wife were permitted to live together in the union workhouse. This should be remembered by those who so freely attack such a restraint upon personal liberty, as harsh and unnatural.

*Schemes of philanthropy must be sufficient to raise the lower classes to a different stage of comfort.*

Any relief which only effects a slight improvement in the condition of the poor, can be of no permanent advantage. The benefit which is, in the first place, conferred creates its own destruction, by encouraging an increase of population. Any scheme of general philanthropy cannot, therefore, be really efficient, unless it so decidedly improves the condition of the working classes, that they are, as it were, at once lifted into a different stage of social and material comfort. The lower classes marry recklessly, because they do not feel that they have any social position to maintain, and they often live so miserably that they cannot be said to have an habitual standard of comfort, such as they will not willingly resign. Men in the middle and in the upper classes will not, as a general rule, marry if they expect to be obliged to live in an inferior state of comfort, and to bring their children up in a lower social position. Similar prudential motives would control the labouring classes if their material condition could be once greatly improved. They would then possess, as the middle and upper classes do now, an habitual standard of comfort, which they would not willingly sacrifice by improvident marriages. These considerations naturally lead us again to refer to emigration as one of the most complete and satisfactory remedies for low wages. When emigration

diminishes the number of those who compete for employment to such an extent as to cause a rise in wages, the benefit conferred upon the working classes is subject to no drawback; and, moreover, the whole of this advantage is not represented by the increase of wages. Emigration, when on a large scale, has aided the development of the new colonies, which not unfrequently supply us with cheap food, and invariably afford a market for our exports. Both of these circumstances contribute to benefit the labouring classes; they of course derive great advantage from cheap food, and the expansion of our commerce tends to make their employment more regular and remunerative. If, therefore, distress is caused by low wages, and it is desirable to make wages higher, Government cannot do anything which will with so much certainty attain this object as to encourage emigration in every possible way. When people emigrate as rapidly as they did from Ireland after the famine of 1848, the rise in wages may be so great, that a permanent effect is produced on the social condition of the people. Agricultural labourers are those who would derive the greatest advantage by emigrating; for theirs is the labour which is required to develop the resources of a country like Australia, where vast tracts of fertile land are as yet uncultivated. Ignorance has prevented the agricultural labourers from fully recognising the benefits of emigration, and ignorance, by magnifying the difficulties of the voyage, has made them unwilling to leave our shores. Emigration is temporarily checked by the American disasters, but it may at any time recommence with unexpected rapidity. If our worse-paid labourers should show an anxiety to escape from the poverty to which they seem doomed, the working classes might then emigrate in such numbers, that wages would obtain a sudden and important rise. This rise of wages might enable those of our labourers who have been most miserable to live in a style of comfort to which they had

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*Effects of  
emigration  
on a large  
scale.*

*Its bene-  
ficial influ-  
ence on the  
labouring  
classes.*

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never before been accustomed; and if they so appreciated this improvement in their condition, that they would not sacrifice it to improvident marriages, the benefit conferred would be a lasting one, and we might never again have a class of labourers who were compelled to work hard for ten shillings a week.

*Other remedies for low wages.*

Two other remedies for low wages have been proposed, in many respects differing essentially from those which have been noticed in this chapter. These schemes are known as the Parish Allowance and the Allotment systems, and they are both intended to subsidise the wages of the labourer, when his remuneration is supposed to be too low. A succession of bad harvests at the beginning of the century, combined with the war expenditure, made the price of food extremely high, whilst at the same time wages were so low that it was considered the labourer had not sufficient means to support himself and family. His wages were therefore subsidised by grants from parish rates, and these parish allowances were made to the labourers on a large scale, for thirty or forty years, before 1832. This system of relief had many advocates, and the cause of its popularity may perhaps be explained in the following manner. There are few who do not possess sufficient human sympathy to be greatly distressed when they observe their fellow-men suffering from the want of the necessaries of life. Any plan, therefore, is eagerly welcomed, which affords relief to such suffering. The grave responsibility which a man incurs in causing children to be born, has never been adequately recognised in this country; and the man who marries prematurely, and becomes burdened with a family which he cannot support, is always pitied, and never receives the censure he deserves. Popular sympathy and charity seem so adjusted, that the man who is most assisted is he who has been most improvident.

*Its effect*

Parish allowances were therefore popular, because for

a time they relieved distress. But some of the advocates of the system were influenced by more selfish motives; for there were those who no doubt had the shrewdness to perceive that parish allowances must ultimately reduce wages, and consequently employers would have the wages which they pay to their labourers partly provided by allowances raised by a general rate. We will verify this remark by tracing the effects which the system would ultimately produce on wages. Let it be supposed that the current wages were eight shillings a week, and that an allowance of two shillings per week is granted by the parish in order to raise the wages to ten shillings a week. If employers should pay the same wages after this gratuity had been granted to the labourer, the allowance would be an entire gain to him; but we believe that, if the system were long continued, wages would be so much reduced, that the wages received, together with the allowance, would soon be not greater, and probably less, than the wages obtained before such a system of relief commenced. When the labourer is in so distressed a condition that it is considered necessary to subsidise his wages, we may with certainty conclude that there is a large surplus of unemployed labour; for wages would not be so low as barely to provide the labourers with the necessaries of life, unless the supply of labour was greatly in excess of the demand. It therefore appears that the allowance system will only tend to make the supply of labour still more disproportionate to the demand; for the unemployed will immediately become more anxious to obtain work, if the wages of those who were already employed are increased by a gratuity from the parish. Those who are out of work will be induced to go to the employers and say—Why do you continue to pay your labourers eight shillings a week, when we are perfectly willing to work for you at seven or even at six shillings a week, now that our wages will be increased by the parish allowance?

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*in lowering wages.*

*It tends to make the supply of labour exceed the demand.*

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It would be unnatural to expect that employers would not avail themselves of the advantage of this competition, and they will be the more anxious to do so in order to compensate themselves for the increased parish rates which the allowance system has entailed upon them. Unless, therefore, the allowances were constantly augmented, the whole wages received, including the gratuity granted by the parish, would be rapidly forced down, by competition, to an amount not greater than the wages previously paid. In fact, the experience of the thirty years during which this system of parish relief continued, affords the clearest evidence that wages were reduced by its influence.

*The allotment system has generally beneficial effects.*

The allotment system, as a means for subsidising wages, is no doubt in every respect greatly preferable to parish allowances. The advocates of allotments formed high expectations of the benefits which they would confer upon the labouring classes. Other high authorities have expressed a different opinion, and maintained that allotments could not permanently be of much advantage to the labouring classes. The one side has probably as much exaggerated, as the other has underrated, the advantages of the system. There is a very important distinction between an allotment and a parish allowance. A parish allowance in no way increases the industry or the wealth of the country; charity is enforced from one class, in order to benefit another. But allotments are small plots of ground, cultivated by the labourers after they have done their regular work, and therefore the system stimulates industry, and increases the wealth of the nation; for productive labour in all probability would not be applied, were it not induced by these allotments. The rent of an allotment is generally so high, that a labourer cannot hope to realise a large profit; but it will answer his purpose to cultivate one, even if a very inconsiderable surplus is left to him, after he has paid his rent. No doubt, if the number of



hours were calculated which he spends on his allotment, it would be found that he would not be adequately remunerated for this labour, according to the ordinary wages he receives; but nevertheless the allotment makes him richer, because without it this extra labour would not be exerted at all. Consequently an allotment would generally be most unprofitable to the labourer, if it required him occasionally to absent himself from his regular work. Those who know the labouring classes, must admit that an allotment gives them a supply of potatoes and other commodities, which greatly improve the comfort of their living, and which certainly could not, as a general rule, be obtained, if it was necessary to purchase them out of the labourer's ordinary wages. Some, however, object to allotments, on the plea that they induce the labourers, who are already worked too hard, to work still harder. It is urged that the man who has to work ten hours a day, as an ordinary labourer, ought to devote the little remaining time he has at his disposal, either to his family, or to his own mental improvement. But it is idle to suppose that the labourer of the present day will do any such thing, for the present agricultural labourers are too ignorant to take delight in any intellectual pursuit; it is therefore very important that they should have some means of profitably employing their spare time. It is true that they are a hard-worked class, but the labour which they spend on their allotments is not irksome; in fact, the interest they take in watching the growth of the various vegetables which they plant, is to them a source of great pleasure.

*It increases  
the comfort  
of the agri-  
cultural  
labourer,*

With regard to the town labourers, who are engaged in sedentary occupations, it is most important that their leisure time should be spent in the open air. To such labourers, therefore, the cultivation of an allotment is a healthful and most beneficial exercise. In large towns it is impossible to supply the labourers with allotments; any land which can be obtained for the purpose is either far

*and is use-  
ful in small  
towns.*

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too distant or expensive; but land which is adjacent to smaller towns may, when partitioned into allotments, produce a most remunerative rent, and yet the labourers will at the same time derive from the cultivation of these small plots of ground a most useful addition to their ordinary wages.

*It does not  
practically  
tend to  
stimulate  
population.*

Those who disparage the utility of allotments also maintain that they exert an influence to increase population, and in this manner cause wages ultimately to be reduced. This opinion can no doubt be supported by apparently strong arguments. The great mass of the labouring population, it is said, are so improvident, that they marry directly they have money enough to settle in a home. If, therefore, allotments add a subsidy to the ordinary wages, it will follow that a greater number will be in a position to marry, and the number of marriages will consequently be increased. Hence the labouring population will be increased, and wages will be reduced; it is therefore said, that although allotments may give some temporary assistance, yet they ultimately reduce wages, and impoverish the labourers by stimulating population. But this theoretical argument does not sufficiently consider the real facts of the case. The allotment system, as we have before remarked, can only be taken advantage of, to any considerable extent, by country labourers, and by those who are employed in the smaller towns. No one who knows the economy of an agricultural village can suppose that a labourer is induced to marry because he rents a plot of ground from which he manages to obtain a few sacks of potatoes. An able-bodied agricultural labourer thinks he is in a position to marry, however low his wages may be, and he is prevented from marrying by no other cause except the difficulty of obtaining a cottage; for landlords, in order to avoid a heavy poor-rate, limit as far as possible the number of cottages which they permit to be built on their estates. Again, with regard

to the town labourers, it cannot be pretended that they obtain from an allotment such addition to their wages as would produce any real effect in promoting marriage. Although we are therefore willing to admit that the advantages to be derived from allotments were, in the first instance, exaggerated; yet we believe that, in many cases, the system has proved a most valuable assistance to our labourers.

Before concluding the remarks which have been made in this chapter on some of the most popular remedies for low wages, we ought to observe that some of those remedies, which we have proved to be inefficient in their permanent effects, may yet, with advantage, be resorted to, in order to meet some temporary emergency. For instance, it may be an unsound and ruinous policy for a Government to continue through a long period to find work for all the unemployed. But if some sudden disaster, such as the failure of an article of food, should devastate a country with a famine, then a Government is bound to resort to exceptional measures, in order, as far as possible, to relieve the distress. Under such circumstances the most desirable course to be pursued is to commence public works, and thus distribute a large sum in wages. The English Government would have only perpetuated the poverty of Ireland, if the money which was so properly voted during the famine year of 1848, had continued to be granted in successive years; for then the Irish peasantry would have been discouraged from emigrating, and would have remained at home, living in the same state of wretchedness and improvidence as before. The Irish resorted, of their own accord, to the remedy which we have described to be the most efficient of all to raise wages; for after the year of famine, emigration commenced on such a large scale that it has properly been termed the Irish exodus, and as a consequence of this emigration, a most marked and happy improvement has been produced in the condition of the Irish peasantry.

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CH. VIII.

*Remedies which are inefficient as a permanent means of relief may be temporarily useful.*

## CHAPTER IX.

## TRADES-UNIONS AND STRIKES.

BOOK II.  
CH. IX.

*Importance  
of con-  
sidering  
the question  
of strikes  
calmly.*

THE frequency of strikes during the last few years has been a prominent feature in the social condition of England. The labouring classes would not be always ready to make such great sacrifices to support a strike, unless they believed that it was the most efficient remedy for low wages. The subject demands a most careful and a most dispassionate consideration, for the prejudices of each party in the dispute are so strong, and the feelings excited so angry, that little is heard but useless recrimination and unreasoning partisanship.

*Trades-  
unions have  
two objects;  
that of or-  
dinary  
friendly  
societies,  
and that of  
organisa-  
tions to in-  
fluence  
wages.*

According to popular ideas, strikes are inseparably connected with trades-unions, and it will therefore be necessary, in the first place, to settle the much-disputed question as to the purposes which trades-unions are intended to fulfil. A committee was appointed by the Social Science Association to investigate this special point. Their report is valuable, and from it and other sources of information, we arrive at the following conclusions:— Trades-unions serve two distinct purposes. In the first place a trades-union performs the ordinary functions of a friendly society. A member of a trades-union is assisted, when thrown out of work, either by illness, or by the stagnation of trade. We need not here farther discuss the effects of a trades-union, when it is simply used for the charitable purposes just indicated. But a trades-union is always something more than a friendly society, its chief purpose

is generally to organise the workmen of a particular trade into a combination sufficiently powerful to enforce various regulations, both upon masters and men. We shall discuss the nature and effects of many of these regulations; but before proceeding to do so, we wish to caution our readers against the opinion that trades-unions are necessarily connected with strikes. Strikes may take place if these trade societies did not exist, but strikes and trades-unions are so frequently associated together, because the organisation of a trades-union affords means for the combined action which a strike requires; there is no doubt that a strike would seldom be organised, unless the power of combination was previously provided by trades-unions.

It may be remarked, at the outset of our investigation, that it is impossible for a trades-union permanently to raise the wages which are paid in any branch of industry, unless it can restrict the number of labourers who should be permitted to work at the trade. The promoters of these societies long since perceived this; and many of the rules of trades-unions are framed with the specific object of restricting the competition of labour. Thus trades-unions will not permit a master workman to take more than a certain number of apprentices. In the hat trade, the number is limited to two. If the union has sufficient power to enforce obedience to its mandates, any restriction which limits the number of those who are brought up to the trade must exert a direct influence to raise the wages which are paid in this particular branch of industry. For suppose that those who are engaged in the manufacture of hats were freely permitted to take as many apprentices as they pleased, the number of journeyman hatters in the country would be very much increased. Let it be assumed that there would be twenty per cent. more journeyman hatters than there are now; under these circumstances, there would be a greater number of labourers competing for employment in the hat trade, and their

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*A trades-union can only raise the wages of a particular trade by limiting the number of workmen.*

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CH. IX.

wages would consequently be reduced. The saving resulting from the lower wages will ultimately benefit those who purchase hats, because the price of hats would be reduced. The hat manufacturers would not be able to appropriate to themselves the saving which would accrue from the payment of a less amount in wages, because, when the cost of producing any commodity is reduced, its price is sure to be lowered in a corresponding degree; for people engaged in the same trade compete against each other for as large an amount of business as possible, and in their anxiety to undersell one another, they offer their commodities at a price just sufficiently in excess of the cost of production to leave them a profit ordinarily realised in trade. It therefore appears, that those who purchase any commodity are compelled to pay a higher price for it, and that the wages of the labourers engaged in its manufacture are artificially raised when restrictions are imposed which limit the number of those who are permitted to be employed in the particular trade.

*Such limitations are indefensible on any ground.*

We believe that such restrictions can on no grounds be defended; in the first place, any such interference with the distribution of the labour of the country, amongst its various branches of industry, introduces many most mischievous inequalities. The labour of which some employments are compulsorily deprived is thrown, as a burdensome surplus, upon other branches of industry, and the wages in some employments are consequently as much depressed as the wages in others are raised. The members of a trades-union, when they usurp such powers, virtually confiscate to their own advantage a portion of the wages which would be paid to other classes of labourers, if the industry were unshackled by such arbitrary rules. Although this injustice is striking, yet there still remains to be described a much greater wrong, which is inflicted upon those who are prevented by a trades-union from following the employment they would select, if left to their own free choice.

There can be no right to which every human being has a more indefeasible claim, than that he should be freely permitted to use his labour as he pleases. The laws of a free country ought to secure to every man this right; for, if it is denied, individual freedom at once ceases to exist. Now I conceive that such a right is denied, if a person is excluded by a trades-union from following a particular employment. It is no excuse for the members of the union to say, Our trade is already overcrowded, wages are too low in it, and it would be disastrous if they should be still farther reduced by a great increase in the number of those applying for employment: every man has a right to judge of such things for himself; he may wish to engage in the trade, because he has a particular capacity for it, and if he is arbitrarily driven to some other employment, he is deprived of the advantages of the skill with which nature has endowed him. It would therefore seem, that trades-unions may inflict upon labourers great social tyranny; and it is not the labourers who alone suffer, for every class of the community is more or less injuriously affected. These trades-unions may imperil the very existence of an industry in any particular district: for the various restrictions imposed upon employers may so much increase the cost of a commodity, as to render it impossible for them to compete against others in the same trade, whose operations are not similarly impeded. Examples may be quoted which prove that some branches of industry have been driven from certain localities by trades-unions. These societies have long been very powerful in Birmingham, and their efforts were at one time chiefly directed against the introduction of machinery. These efforts were in a great degree successful, and consequently, when steam began to be generally applied, those trades which required much machinery settled in other localities, and the manufacturers of Birmingham are to this day in a great degree confined to those branches of industry which require comparatively a much greater amount of

*They injuriously affect all classes,*

*and drive away trade.*

*Instance of Birmingham*

BOOK II. manual labour than machinery. Another example may be  
 CH. IX. furnished by Sheffield. In this town, during the last few  
 and years, many most dreadful outrages have been perpetrated  
*Sheffield,* upon artisans who have refused to join the trades-unions. Now when these societies usurp such powers of social tyranny, they are sure to practise coercion upon the masters, attempting to control them in their business arrangements by all kinds of vexatious restrictions. The trade of Sheffield thus trammelled must inevitably decline; for although the place may have special advantages for the industry which there flourishes, yet other localities, where masters and men are permitted to act as they please, will be able to compete successfully against Sheffield. In corroboration of this opinion it may be stated, that a successful steel manufactory has already been established in Manchester, and its promoters openly confess that they have been induced to select Manchester, in order that they may escape the influence of the trades-unions. If, moreover, these societies should increase in numbers and in power, so as gradually to embrace a large majority of the working classes, the industrial prosperity of the nation might be seriously jeopardised, since various branches of industry might not only pass from one locality to another, but might even leave the country. For we could not compete with foreign countries if our manufacturers are to be dictated to by their workmen with regard to the labourers who should be employed, the machinery that should be used, and the mode in which the business should be conducted.

*by means of exercising a social terrorism.* It may perhaps be asked, How can these trade societies exercise the influence they do, when everyone is aware that the coercion they practise is not based on any legal sanction? No one can doubt that the members of a trades-union commit a criminal act, if they attempt, in the slightest degree, to interfere with any individual who may not belong to their society. It would therefore appear, that



social terrorism is the source of their power; for although such outrages as those committed at Sheffield are exceptional, yet a non-union man is subjected to so many petty annoyances that his life not unfrequently becomes a burden to him; and employers are coerced in a similar manner, if they do anything contrary to the rules of a trades-union. Thus if a master engaged in some business, such as wool-stapling, where the trade society is all-powerful, should presume to employ non-society men, all his labourers who belonged to the trades-union would at once refuse to work for him, and he may in this way be subject to great loss and inconvenience.

It is not, however, these regulations concerning the internal arrangements of a trade, which have caused so much public attention to be directed towards trades-unions during the last few years; but interest has been excited in these societies in consequence of their connection with strikes. The trades-unions have, in fact, endeavoured to regulate wages, and they apply their organisation to compel employers to agree to their demands. If, for instance, it is proposed to reduce the wages in some particular branch of industry where the majority of the men employed belong to a trade society, then, if the leaders of the society consider that the reduction ought not to be made, they issue an order that work should be discontinued rather than that the reduction should be accepted. If the reduction is still insisted on by the employer, the immediate consequence is a turn-out of the workmen, or, in other words, a strike. Now it is evident that a trades-union need not necessarily have the slightest connection with a strike, and, even if trades-unions did not exist, strikes might still be of frequent occurrence. A strike implies a combination amongst a large number of workmen, and such a combination is not possible unless a considerable majority of those engaged in any trade agree to act in unison. Such a combination as a strike requires

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*The connection between trades-unions and strikes is intimate, though not necessary.*

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CH. IX.

cannot therefore exist unless the workmen submit to be governed by an organisation. The trades-unions supply this organisation, without which there cannot be complete unity of action. It is quite possible, however, to conceive that a trades-union may prevent a strike, and many of these societies have, as yet, never been connected with a strike; still, as long as a great number of workmen in this country are warm advocates of the system of strikes, we may be quite sure that trades-unions and strikes will be intimately connected together.

*Question  
whether  
combina-  
tions of  
workmen  
can raise  
wages.*

Since a strike requires combination, we have to enquire, when investigating the effect of strikes, whether workmen by combining can obtain higher wages. It can scarcely be disputed that they possess a perfect right to combine. The right may be, and has been, abused, and then, of course, it ceases to be justifiable; but if employers are freely permitted to invest their capital to the greatest possible advantage, we conceive that the employed may equally claim to be allowed to obtain the highest wages they can for their labour. If, therefore, any number of them choose to form themselves into a combination, and refuse to work for the wages which are offered to them, they are, we think, as perfectly justified in doing this as capitalists would be if they refused to embark their capital because the investment offered was not sufficiently remunerative. Workmen, however, do an illegal and most mischievous act, which ought to be punished with the utmost rigour of the law, if they attempt to sustain the combination by force, and if they coerce individuals to join it by threatening to subject those who keep aloof either to annoyance or personal violence. We will not here stay to enquire whether strikes are generally maintained by an abuse of the power of combination; for we must first apply ourselves to the fundamental question which is the basis of the whole subject, and consider the effects which can be exerted on wages by such a combination of workmen as a strike implies.

We must ask our readers to bear carefully in mind that, if strikes increase the remuneration of the labourer, they must in a corresponding degree diminish the profit of the employer, unless he is able to sell the commodities he produces at a higher price, and thus compensate himself for the increased wages which the strike compels him to pay his workmen. We will therefore, in the first place, assume that there is no such rise in the price of commodities. This assumption narrows the enquiry, and leaves us the following simple question to answer—Can workmen appropriate to themselves by means of strikes any portion of their employer's profits? Now it has been stated, in previous chapters of this work, that the profits realised in each branch of industry approximate to a certain average rate; this rate varies from time to time; it is greater in one age than in another; but there is always a certain average rate of profit common to all trades, if proper allowance is made for the various conditions which affect different branches of business. In asserting this we do not lose sight of the fact that one trade may be depressed whilst another is prosperous. If, however, commercial men believed that, on the average of years, some particular business was extremely profitable, there would be a general desire to participate in these advantages, a large accession of capital would be quickly brought into the business, and the exceptionally high profits would be rapidly reduced by competition. If, on the other hand, some particular branch of industry should be made extremely unremunerative, in consequence of the employer's expenses being greatly increased without any counterbalancing compensation, those engaged in the industry would withdraw their capital from it as speedily as possible, in order to embark it in other more lucrative undertakings. It would therefore appear that it is impossible for strikes *permanently* to raise the wages paid in any trade, unless the masters who pay these higher wages receive an adequate compensation for the

BOOK II.  
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*The increase of wages must imply a diminution of profits,*

*and therefore cannot be permanent*

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increased expense to which they are subjected. To prove this, it is only necessary to observe that the whole returns in any trade must, after replacing capital, be divided between the employer and the labourer—i. e. between profits and wages—and that consequently it is physically impossible that any permanent rise in wages should take place without a corresponding diminution of profits. The gross profits would be diminished by precisely the same sum as that by which the wage-fund would be increased. The inevitable consequence of this would be the depression of the trade, the withdrawal of capital, and the reduction of the wage-fund itself—i. e. of the amount to be distributed amongst the labourers employed. It may perhaps be supposed, that if a combination of labourers succeeded in obtaining an advance of wages from a master, he could compensate himself by charging a higher price for the commodities which he produced, and if this were done, wages might be raised without encroaching in the slightest degree upon the profits of the employer. We have already anticipated this case; for it has been shown that a trades-union might undoubtedly raise the wages of a branch of industry if the union possessed sufficient power to control the number of workmen who should compete for employment in the trade. We, however, stated that if the wages were raised in this manner, the loss would ultimately fall not on the employers, but on those who purchased the commodities produced, which would be sure to advance in price. But if the wages of one trade were thus artificially increased, labour would soon be attracted from other employments, and this additional supply of labour would, sooner or later, reduce wages to their natural level. If trades-unions are permitted to prevent this free passage of labour from one employment to another, wages may permanently maintain an artificial advance; but trades-unions can only exert such an influence by resorting to a social tyranny, which is in every sense illegal and unjusti-

*unless the  
number of  
labourers is  
restricted  
by social  
tyranny.*

fiable. It therefore appears that it is equally impossible for the wages of any trade to be permanently advanced by a combination, even although the employers should be temporarily recompensed by a rise in the price of the commodities they produce.

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Although we believe we have proved that a strike cannot *permanently* raise wages, yet it remains for us to consider whether or not a strike can exert any *temporary* effect upon wages. Now we have previously remarked, that almost every branch of industry is subject to great fluctuations. The losses which are incurred in times of depression are compensated by the high profits realised in the recurring periods of active trade. The position of the labourer is, no doubt, affected by these changes in his master's prosperity, for when trade is dull, wages are low; and, on the other hand, when trade is good, wages are sure to be high. But we think that labourers will more fully and more rapidly participate in the extra gains resulting from active trade, if they exhibit a power to form combinations. It is, we are aware, constantly stated that the interests of the employer and employed are identical, and this proposition is understood to imply that every improvement in trade must inevitably and immediately benefit the labourer equally with the master. Such a happy consummation is far from being realised by our present social system; for its gravest defect is, that there is no identity of interests between employers and employed, and as long as they are not attached to each other by any of the bonds of a common pecuniary interest, we shall, undoubtedly, have to deplore the frequent occurrence of strikes and other unfortunate trade disputes. There is at the present time no more identity of interest between employers and employed, than there is between a buyer and seller. The seller of a commodity exerts himself to obtain the highest possible price for it, and the buyer, on the other hand, equally exerts himself to pay the smallest price. Buying

*Can strikes raise wages temporarily?*

*The interests of workmen and their employers are only identical in the sense in which the interests of buyers and sellers are identical,*

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*which is not  
true temporarily,  
though true  
in the long  
run.*

and selling, therefore, necessarily imply a conflict of effort.

And are not employers and employed buyers and sellers?

For the labourer is as anxious to sell his labour at the best possible price, as if he were disposing of some ordinary commodity; on the other hand, the master, by engaging his workmen on the lowest wages they are willing to accept, profits as much as he does by purchasing, on the most favourable terms, the materials which he may happen to employ in his industry. There is, therefore, an antagonism, instead of an identity of interests, between employer and employed. It must, however, be borne in mind, that this antagonism amounts to no more than that which exists between the buyer and seller of a commodity; for it would be most erroneous to conclude that the interests of employer and employed were opposed to each other in the sense that the one profited by the other's misfortunes. The reverse of this is, doubtless, true in the long run. The prosperity of each party to the bargain will, in some degree, ultimately be shared by the other; but it is not the less true, that at the instant of making the bargain the interests of the two parties are temporarily opposed. Our previous remarks, indeed, refute the idea of a permanent antagonism of interests; for it has been repeatedly stated that, from the employer's profits, the capital is accumulated out of which the wages of the labourers are paid. Any circumstance, therefore, which permanently cripples the resources of the employer, must prove disastrous to the labourer, because it would diminish the fund from which his wages are paid; in a similar way, although the bargain which takes place in the ordinary transactions of buying and selling implies rivalry of interests, yet any general misfortune which might happen to the selling class will, to an equal extent, affect, prejudicially, the interests of the purchasers, because they would have to pay a higher price for the goods they may desire to purchase. We may then conceive many cases in which the buyer is

*Sellers  
may at*

placed in a relatively worse position than the seller; in fact, the buyer may suffer, because, in adjusting the bargain, the seller may possess superior opportunities. To illustrate this we may quote the example of adulteration. The person who purchases a pound of tea cannot form a correct estimate of its exact quality; the grocer, therefore, if so inclined, can presume upon this ignorance, and thus a far greater price than ought to be paid is frequently given for an adulterated article; it is difficult to over-estimate the extent of the loss which is in this manner incurred by those who deal at many of the small retail shops. In wholesale transactions, however, this inequality in adjusting the bargain of buying and selling does not exist, because, as a general rule, each party to the bargain has equally good opportunities of forming a correct estimate of the real value of the commodity which is bought and sold. Since, therefore, we have shown that the engaging of hired labourers differs in no essential respect from any ordinary transaction of buying and selling, the question is naturally suggested, Are labourers as likely to make a good bargain with an employer if they possess no power of combination, as they are if their power of combination is so great that many thousands will act in perfect unison, and will refuse, during many consecutive months, to work for the wages which are offered to them. In answering this question I cannot, after great deliberation, resist the conclusion, that such a power of combination may secure to the labourers higher wages in certain special states of trade. I will proceed to state the grounds on which I base this opinion. It may very probably be urged at the outset, that strikes have almost invariably failed to secure for the workmen any of the demands which they have put forth. It frequently happens that those who join a strike endure the most severe hardships, and cause an enormous sacrifice of money. They not only cripple their master's resources, but they

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*times have special advantages over buyers.*

*This may be true of buyers and sellers of labour, and be put right by combination of workmen.*

*It is said that strikes always fail.*

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CH. IX.

*They generally procure great suffering,*

exhaust their own savings, and contributions are levied from other workmen, which they can ill afford to spare. In the great strike of Preston, in 1854, 17,000 men were on strike for thirty-six weeks; the strike cost the operative class at least 250,000*l.*, and after the most terrible distress had been borne with a calm courage and a noble resignation that won the admiration of all, the workmen resumed work, without obtaining any part of the demand for which they originally struck. The result of the recent great strike in the building trade was equally disastrous. I am therefore fully desirous to recognise the great sufferings which strikes entail upon the labouring classes. And perhaps I need scarcely stay to expose the fallacy, that the labourers receive some compensation for these misfortunes, because they succeed in entailing equal losses upon their masters. The sacrifice of the master's property only serves to aggravate and to perpetuate, during some years, the misfortunes of the labourers, since any sacrifice of the master's property diminishes his capital; he may therefore have a smaller fund to distribute in wages amongst his labourers, when they resume work. But such cases of disastrous failures as those we have mentioned do not afford a complete proof that labourers can never be benefited by a power of combination. Moreover, although strikes have completely failed in the majority of instances, yet we must not forget that, on many occasions, strikes have been perfectly successful, as far as the labourers are concerned\*.

*but do not invariably fail.*

\* We select the following instances of successful strikes:—

In the year 1836 the workmen of Messrs. Seward and Co., engineers, London, struck for the reduction of the number of working hours from ten and a half to ten hours a day. The workmen of the other employers in the neighbourhood subscribed for the assistance of Messrs. Seward's men; the battle was fought, and the result of it was that the men were entirely successful.

In 1848 the operative builders struck for a cessation of work on Saturdays at 4 o'clock. They were successful.

In the same year they struck for an advance of sixpence per day. They obtained their demand.

In 1859 the shipwrights of the Tyne and Wear struck for an advance of wages; and, as on many previous occasions, they succeeded.



We shall however be deceived by fallacious reasoning if, adopting the method of investigation usually pursued, we make an estimate of the great outlay which unsuccessful strikes have involved, and contrasting this outlay with the comparatively small gains which successful strikes have brought to the labourers, we then assume that a conclusive argument has been supplied on the subject. The frequent failures of strikes may be, in a great degree, explained by the somewhat remarkable fact, that the workmen of a trade have generally struck when it was in such a condition as to prevent a combination having the least chance of exerting any influence to increase wages. When trade is declining, and the employers' profits are diminishing, workmen not unfrequently at once threaten to strike, if a reduction of wages is proposed. But under such circumstances the employers are fairly entitled to reduce their wages; there is no reason whatever why their profits should bear the whole brunt of the depression in the trade. When profits decrease, there is a smaller aggregate amount to be distributed amongst the employers and the employed; and it is both reasonable and equitable, that the amount allotted to each should be diminished. Moreover, when a trade is dull, the masters are in the best condition to contend with a combination; for they may well say, Our profits are so much reduced by this depression of business, that it is a matter of little consequence to us if those we employ should choose to abstain from work for a time. Labourers, however, forget this, and still clinging to their unfortunate prejudice against capital, they are always more prone to believe that wages are reduced rather by the tyranny of the capitalist, than by natural causes over which he has no control. Hence, when

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*The fact that they so frequently fail is partly attributable to their taking place when trade was in a bad condition.*

In 1859 the building trades of Dublin struck for an advance of two shillings a-week. After a brief struggle the masters complied with the demands of the men.

In the same year, 1859, the Northampton boot and shoe-makers struck successfully for an increase of wages.

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trade is dull, strikes are frequently organised, in order to resist this imaginary tyranny; and at such a period, disastrous failure must be the inevitable result of a combination.

*Could they be advantageous to the workmen if made when trade was good?*

Let us next however enquire whether the workmen can derive any advantage from combining when trade is good, and high profits are realised. It is too often forgotten, that a strike on a large scale necessarily implies that a combination must have previously existed amongst the employers; for a strike is essentially a protest against some definite act emanating from the employers in a particular trade. Either a reduction of wages may be objected to, or a protest may be made against the number of hours during which the workman is compelled to work. But a definite act cannot be performed by such a numerous body of men as the masters of a trade, unless there is unity of action amongst them; or, in other words, unless they combine. When all the workmen of a trade combine over a considerable area, in order to resist a proposed reduction in their wages, it shows that the reduction is general, and therefore must have been made as the result of an agreement amongst a great number of masters. In fact, we need not multiply reasons to prove the existence of these combinations amongst employers; for every commercial man is aware that, in all our great branches of industry, the wages to be paid are settled by a general agreement amongst the employers in each locality. In two adjoining mills in Manchester, it will never be found that different wages are paid for doing the same kind of work; any alteration in the rate of wages is always preceded by a meeting of the masters, at which they not only decide the particular day when the change shall commence, but also fix the exact amount of either the proposed rise or reduction in wages. We must therefore assume that, in those trades where strikes occur, there is in each locality so much combination amongst the employers in each distinct trade, that every

*A strike necessarily implies a combination amongst employers.*

individual master pays the same rate of wages and controls his workmen by the same general rules. Having established this fact, let us, in the first instance, assume that there is no power of combination amongst the employed. In order to illustrate our argument, let it be farther assumed, that some branch of manufacturing industry is extremely active, and that unusually large profits are being realised. The individual workman might very naturally think that, out of these large profits, his master might afford to pay him higher wages. The workman might therefore go to his master and say, Your trade is now so good, that I think I ought to receive better wages. The master might reply, If you wait patiently, you will find that your wages will be raised; for you know that we always pay you higher wages when our trade is good. By and by we, the masters, will no doubt meet together, and you may depend upon it that we shall then decide upon a rise of wages. This no doubt is perfectly true, but the workman might rejoin, Why should I wait until you choose to arrive at this joint decision? if you can afford to raise my wages, why don't you do so at once? The master would very naturally persist in his refusal; for he would feel confident that the workman, being a poor man, could not live without employment; and as the wages paid in the trade are uniform, the workman would have no chance of obtaining higher wages from another employer. Let us now, however, enquire whether, under the same conditions of trade, a different result will not follow if the labourers have power to form a combination amongst themselves. Upon this hypothesis, when trade was flourishing and profits were high, it would not be the individual workman who would demand higher wages, but the demand would come from those who were the delegates and representatives of combined thousands. These representatives might put forward the following claims:—We are aware that you, the masters, are now realising extremely large profits; we

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*If this were opposed by no combination amongst workmen, wages might be kept down.*

*But if opposed by such a combination when trade was flourishing, wages might probably rise more quickly with a rise in profits.*

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know the price of the raw material, and we also know the price at which you sell your manufactured goods; we can therefore calculate with accuracy what your exact profits are. We have made this calculation, and in our opinion you can afford to raise our wages. The masters might state reasons why they were not prepared to make such an advance in wages; possibly the workmen might be satisfied with these reasons; but if they were not so satisfied, then they might say, We consider that we are not obtaining a fair price for our labour, and we therefore refuse to work. They might further urge, that this resolution is neither strange nor unjust; for if you, the masters, cannot obtain a fair price for your goods, you refuse to sell them. We are aware of the sacrifice we shall make, and the loss which we shall incur; but great as the sacrifice may be, we are prepared to meet it, for we are provided with funds which will enable us to do without work for months. The masters would know that they themselves would suffer a most severe loss, if such a determination were carried out; for their business would be stopped at a time when it is most profitable. They would therefore have every inducement to grant their workmen what they claimed, if the demands were really justifiable.

*Though a power of combination is liable to abuse, it therefore gives some advantages to workmen.*

The workmen might, it is true, as they have very frequently done, make a demand for these higher wages when there was nothing in the state of trade to justify an advance. If, however, they should do this, they would commit a most grievous error, the consequences of which would be even more serious to themselves than to their employers. In my opinion, therefore, although the power of combination amongst workmen may be liable to gross abuse, yet on the other hand, when this power is legitimately and intelligently used, the workmen are always enabled to dispose of their labour on the most favourable terms. We have previously said that hiring labour is like any ordinary transaction of buying and selling. A bargain

is, in fact, implied, and to every bargain there must be two parties. When labour is bought and sold, the bargain is adjusted by the employer and the employed. If the employers possess a power of combination and the labourers do not, then we think that one party has a chance of obtaining a better bargain than the other; but if this power of combination is exerted by both, then they are both placed in a position of perfect equality.

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The conclusion just established may perhaps appear extremely disheartening, for it may seem to show that strikes, with all their attendant misery, must become a permanent part of our social system if labourers are benefited by combinations. We, however, take a far more encouraging view of the subject; for we consider the present unfortunate disputes between employers and employed to denote a transition towards economic relations far more satisfactory, and far more advantageous to the nation at large. This opinion is based upon the belief that the great strikes which have recently taken place provide the most complete security against their future occurrence. When the existence of a power of combination amongst the labouring classes has been fully demonstrated, it will exert its influence potentially, or, in other words, the whole influence will be exerted without the power being brought into action. It is in this manner that national armaments produce their effects. Our navy may be a complete protection to our shores, although it does not fire a hostile shot for a century—our shores are protected, because it is known what our navy can do if it is required to put forward its power. In a similar way the workmen may obtain all the results which a combination can give them, without ever assuming towards their employers any such hostility of attitude as a strike implies. When this power of combination is fully recognised, all that can be secured by it must be peacefully conceded; and, therefore, instead of enmity being perpetuated, increased harmony

*Nature of the benefits to be expected from the power of combination amongst workmen.*

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CH. IX.

and good-will will be guaranteed. The workman will become a participator in his master's prosperity; and if he shares in his prosperity, he will learn to suffer with him in time of adverse trades. The workman may thus be gradually taught one of the most valuable of all lessons, namely this, that capital is not a tyrannical power which oppresses him, but is the source from which he obtains his livelihood.

*Tendency to  
produce a  
community  
of interest  
between  
labourers  
and capi-  
talists.*

If, moreover, it is true that the power of combination causes the workmen more completely to participate in their master's prosperity and adversity, it is evident that different relations between employers and employed are introduced. There will then be more identity of pecuniary interest between masters and men, and they will more completely become fellow-labourers or partners in the production of the commodities upon which their joint labour has been engaged. If the present want of sympathy between employers and employed could be replaced by such a co-partnership, it would be one of the greatest social reforms that has ever been introduced. The employers would be abundantly recompensed for the portion of their profits which they might resign on their workmen's behalf by the increased efficiency of their labour; for it is difficult to over-estimate the extent to which the efficiency of labour is diminished by that listlessness and want of energy which must always characterise the labourer who works for ordinary hired wages\*. Such an one has

\* Numerous cases might be quoted which would prove that the employer is abundantly compensated when such a co-partnership is created between him and those whom he employs. We cannot do better than allude to the experiment that was tried by M. Leclair, a house-decorator of Paris. The experiment, though well known, is particularly important, because its results have been verified by the most accurate testimony. M. Leclair employed about 200 workmen, and the carelessness and apathy of his men subjected him to constant loss and annoyance. He therefore resolved that he would endeavour to make the labour of his men more efficient by giving them some pecuniary interest in the work in which they were employed. He consequently assembled them together, told them that he would continue to pay them the customary wages of the trade, and at the end of the year would distribute amongst them a certain share of the profits which had been realised. M. Leclair emphatically affirms that the plan was eminently suc-

no interest in the work in which he is employed; his only motive, as far as pecuniary considerations are concerned,

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cessful, and that he was in a pecuniary sense abundantly recompensed for the share of his profits which he gave to his workmen. Their habits and demeanour were greatly improved, and, even when not at work, they showed increased respect for themselves, as well as for their employer, in all the other relations of life.

As another example, it may be mentioned that the Paris and Orleans Railway Company distribute a certain portion of the profits realized amongst the working staff of the railway, and it is unanimously affirmed by the Directors that the plan succeeds admirably.

It appears at the time when the second edition of this work is passing through the press, that these co-partnerships between employers and employed are being much more rapidly and extensively introduced than could have been anticipated from our *à priori* reasoning. The proprietors of some of our largest commercial concerns are changing their establishments into joint-stock companies; they retain the largest portion of the shares in their own possession, and the remaining shares are then offered to those who are employed either as managers, foremen or workmen. The Messrs. Crossley of Halifax, Yorkshire, are the owners of probably the largest carpet manufactory in the world. They propose to change their vast establishment into a joint-stock company, the capital of which will be £1,650,000. The Messrs. Crossley retain in their own possession shares which represent four-fifths of this capital, the remaining shares they offer to the 4,400 workmen whom they employ; every labourer will thus have an opportunity of becoming a partner. In order still further to explain some of the plans of co-partnership which are proposed to be adopted, we will briefly describe a scheme which has been most admirably devised by the Messrs. Briggs, who are large coal-proprietors at Methley, near Leeds. They propose to dispose of their coal mines to a joint-stock company, the capital of which, £135,000, is raised by 9000 shares of £15 each. The Messrs. Briggs will retain two-thirds of the whole number of shares, and the remaining one-third will be first offered to those who are employed at the mines. The workmen will be able to have on the directory some of their own body to represent them. It is further proposed that if the profits should exceed 10 per cent. after setting aside a fair amount to reimburse capital, one-half the remaining surplus shall be distributed amongst the labourers, and that each individual share of this bonus should be proportioned to the aggregate wages which he has earned. A most satisfactory cooperation between capital and labour will thus be secured. The Messrs. Briggs, who may be regarded as men of great experience, affirm that the plan even as a commercial experiment is likely to prove eminently successful. They say with great truth, that labourers who own the capital and participate in the profits realized will never resort to strikes, and those unfortunate disputes which have recurred with such disastrous frequency in the coal trade will thus be prevented. Messrs. Briggs also state that labour in a coal mine can never be properly superintended; the portion of profits which may be distributed as a bonus amongst the labourers will stimulate their energy, and their industry will thus become more efficient. The important consequences which would follow if this plan should be successful cannot be over-estimated; the great economic question of the day would be solved, for there must always be much that is unsatisfactory about our national industry as long as there is no co-partnership between capital and labour.

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CH. IX.

is to do just enough work, and to do it just sufficiently well, to prevent his master finding fault with him. The highest efforts of the workman are therefore not called forth, and all his labour has to be most carefully superintended. These are grave defects in our national economy which have been again and again recognised; any influence, therefore, must be most beneficial which should exert a tendency to make the employers and the employed feel that they are not merely rivals adjusting a commercial bargain, but that they are fellow-labourers, by whose united efforts wealth is produced.



## CHAPTER X.

## ON COOPERATIVE INSTITUTIONS.

VARIOUS plans and schemes for obtaining a different distribution of wealth are constantly supported, with more or less favour, by the labouring classes. In the last chapter, we described two of these plans; namely, trades-unions and strikes; and we endeavoured to trace, with strict impartiality, the evils and the benefits which they might confer upon the labouring classes. During the last few years, the rapid extension of cooperative institutions has excited as much attention as trades-unions and strikes. In the last chapter we had to refer to much that was unsatisfactory and distressing; we, however, discuss the subject of the present chapter with unmixed pleasure, because we believe that wherever the principle of cooperation is carried into practical effect, the labourers enjoy a far more favourable distribution of wealth, and that this advantage is moreover secured to them without the slightest suspicion of the least injustice having been inflicted on any other class.

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*Importance  
of the co-  
operative  
principle:*

It has been frequently stated, that wealth cannot be produced without the application of capital and labour; the economy of our country is such, that the capital and labour are seldom supplied by the same individuals. Hence wealth is in this country usually produced by the exertion of two distinct classes, who are called employers and employed. The wealth, therefore, which is produced by their joint exertions belongs to them, and is dis-

*it implies a  
union be-  
tween  
capital and  
labour.*

BOOK II.  
CH. X.

tributed between them. The employers supply the capital, and the share which they obtain is termed their profits; the remaining share is apportioned in the form of wages to the employed, who supply the labour. Now the amount of these shares is regulated by definite laws, which primarily depend upon a ratio between capital and population. But although such may be regarded as a description of the present economic condition of this country, yet it is manifest that there need not necessarily be two distinct classes termed, respectively, employers and employed; for the labour and the capital required to produce wealth might be provided by the same set of individuals. If this were done, those who labour would enjoy as their own property all the wealth that was produced, because no portion would have to be allotted in the form of profits to a different set of individuals who supplied the capital. It is therefore manifest, that if the capital required in any industry is supplied by the labourers who engage in it, employers and employed are then merged into one class, and capital and labour are said to cooperate. Such an union of capital and labour defines what is termed the principle of cooperation.

*Origin of  
the co-  
operative  
movement  
in England.*

We will, in the first place, describe the origin and growth of the cooperative movement in England; because we think that such a description will throw much light upon the exact nature and scope of the benefits to be derived from cooperation. Like many other social movements that afterwards have assumed permanent importance, the principle of cooperation was first carried into practical effect in this country in a form so humble as scarcely to attract a passing notice; and perhaps the extension of cooperation has been so extraordinary, because its development has been assisted by no extraneous aid. The cooperative movement in England was first commenced in Rochdale. About the year 1844, a few working men in that town suspected, and no doubt justly so, that

*Rochdale.*

they were paying a high price for tea, sugar, and other such articles, which they at the same time believed were not free from adulteration. They therefore said, 'Why should we not club together sufficient, amongst ourselves, to purchase a chest of tea and a hogshead of sugar from some wholesale shop in Manchester?' This they did, and each one of their number was supplied with tea and sugar from this common stock, paying ready money for it, and giving the same price for it as they had been charged at the shops. When all the tea and sugar had been thus sold, they agreed to divide the money which was thus realised, amongst themselves, in proportion to the capital which each individual had subscribed. They did not expect to secure any considerable profit; the object they had in view was not so much to obtain a good investment, as to avoid purchasing adulterated articles. But they found, not a little to their surprise, that a very large profit had been realised. The great advantage of the plan became self-evident, for not only were they provided with a lucrative investment for their savings, but they obtained unadulterated tea and sugar at the same price as they had been previously obliged to pay for these same articles when their quality was deteriorated by all kinds of adulteration. A fresh stock of tea and sugar was, of course, purchased. Other labourers were quickly attracted to join the plan, and subscribe their savings; soon the society was sufficiently extended to justify them in taking a room, which they used as a store, and the success of the plan fully kept pace with its enlargement.

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CH. X.

Cooperative  
store.

In 1856, this society, now become famous as the Rochdale Pioneers, possessed a capital of about 12,900*l.* The business was not long restricted to articles of grocery; bread, meat, and clothing were all sold on the same plan. Their capital so rapidly increased, that they were soon enabled to erect expensive steam flour-mills; and a supply of pure bread, as well as unadulterated tea, was thus insured. During

Progress of  
the Roch-  
dale  
Pioneers.

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CH. X.

*Their  
financial  
success.*

the last few years, this Pioneers' Society has attracted frequent public attention; for it has gradually grown into a vast commercial institution, embracing a great variety of trades. At the present time its capital is 32,000*l.*, the annual amount of business done is 170,000*l.*, and the profits realised are twenty per cent. The general management of this society, and the mode in which the profits are distributed, are both most excellently arranged. A ready money system is so scrupulously adhered to, that even a large shareholder cannot make the smallest purchase on credit. The managers of the business are chosen by the general body of shareholders, and in almost every case a most admirable selection has been made. The accounts are made up quarterly, and placed before a general meeting. London accountants have audited these accounts, and they express an unanimous opinion, that no business in the country is better conducted. With regard to the distribution of the profits, a sufficient sum is first allotted to pay a dividend of five per cent. on the capital; the remaining profits are divided according to the following plan. Every person, when he purchases goods, receives one or more tin tickets, on which is recorded the amount of his purchases. At the end of every quarter, each person brings these tin tickets, which form a record of his aggregate purchases, and the remaining profits are distributed in proportion to the aggregate amount which each individual has expended at the store. Thirteenpence in the pound is the average amount which in this manner is received as a drawback.

*Its causes.*

We will now proceed to consider the causes which have contributed to the remarkable financial success of this cooperative society, and we will then explain some of the special benefits which such a society confers upon the labouring classes.

*It is carried on on*

The ready money system which is invariably adopted by these societies has probably promoted their prosperity

more than any other circumstance. All bad debts are thus avoided, and when credit is not given, a certain amount of business can be transacted with much less capital than would be required if large sums were locked up in book-debts. Under a ready money system, the same capital may perhaps be turned over twenty times in the course of a year, and if one per cent. only is realised upon each transaction, the capital will secure an aggregate profit of twenty per cent. in the course of the year. When goods are sold for ready money, they can also be bought for ready money from wholesale dealers. This is always a guarantee that the purchases will be made on the most favourable terms. Again; the shareholders of the society form a nucleus of customers, and therefore, directly business is commenced, a certain amount of trade is insured. If an individual commences a business, he must attract customers, either by advertising, or by costly shop fronts; he is compelled to conduct his business in crowded thoroughfares, where rents are extremely high; but a cooperative society is saved all such expenses as these; its shareholders are its customers; it therefore need not advertise, it does not require a showy building, for its position is rather in the centre of the homes of the labouring population. These and other advantages sufficiently account for the great profits which have been realised, not only by the Rochdale cooperative store, but by a great number of similar societies, situated in almost every part of the country\*. There are, however, some counterbalancing disadvantages, which it will not be advisable to pass by unnoticed. Now it is manifest that such a cooperative store or shop as that we have been describing resembles, in many respects, an ordinary joint-stock trading company.

BOOK II.  
CH. X.

*the ready  
money  
system.*

*A sufficient  
number of  
customers is  
secured.*

*It has the  
disadvan-  
tage that it*

\* A recent number of a monthly journal called the 'Cooperator' contains intelligence from Cooperative Stores in the following towns:—Aberdare, Banff, Blackburn, Burnley, Cleckheaton, Coventry, Dover, Hemel-Hempstead, High Green, Huddersfield, Hurstbrook, London, Manchester, Middleton, Newmarket, Norwich, &c.

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CH. X.

*manager of the store is not sufficiently interested.*

Many of the difficulties with which the joint-stock principle applied to trade has to contend were stated in a previous chapter, and it is evident that many of the same difficulties may impede the progress of a cooperative store. For instance, the manager who is paid by a company is rarely so energetic, so skilful, and so generally efficient as the individual owner of a business. Self-interest stimulates the latter to exert himself to the utmost; but no such motive acts on one who is paid by a fixed salary. This difficulty has been often got over by making the remuneration of a manager depend partly on the profits realised; and men are occasionally found who will exert themselves as much when managing the affairs of a company as if they were conducting a business of their own. Some of the

*This defect is illustrated by the superiority of the grocery store to the drapery store.*

defects which belong to the joint-stock system are very curiously illustrated by the detailed accounts of the Rochdale store. It is shown, for example, that the business done at this store in grocery amounts to at least ten times the business done in articles of clothing, and in every other cooperative society as great, or generally a greater disparity is shown in the amount of business transacted in the grocery and drapery departments respectively. Now there must be some cause for this inequality, for it incontestably proves that the labouring classes willingly purchase from a cooperative store all the grocery they require, whereas they prefer to buy all articles of clothing from the ordinary retail shops. The reason why they do this may be readily explained. A man, when purchasing an article of clothing, likes to employ his own taste and judgement in selecting it, and he is therefore glad to have as large a stock as possible to choose from; this he thinks he does not secure if he restricts himself to one single shop. The success, therefore, of a draper or clothier must mainly depend upon the skill with which he consults the tastes of his customers. He must consequently exercise the most constant vigilance with regard to all kinds of petty details,

and this vigilance and care can seldom be expected from one whose full energy is not stimulated by feeling that he is the owner of the business. On the other hand, however, a person when purchasing grocery cannot exercise his own judgement, but is entirely in the hands of the grocer himself. What, therefore, the poor especially require when they buy their tea and sugar is, the security that they obtain an unadulterated article. This security they believe they can have by resorting to a cooperative store, and hence, when one of these societies is first established, its business should for some time be almost entirely restricted to selling grocery, and other articles of food. After a time, various other trades, as has been done at Rochdale, may with great advantage be embraced.

The advantages which the working classes derive from a cooperative store are very apparent. In the first place, it provides them with the most eligible investment for their savings. This is most important, because the absence of good opportunities for investing small savings acts most powerfully to increase the improvidence of the poor. Even the middle and upper classes, whose superior education gives them prudence and foresight, are very much influenced in the amount they save by the profit which they believe would be realised on their capital. Hitherto the savings'-bank has been the only investment which, as a general rule, has been open to the working man. Now the ordinary English labourer must make many severe sacrifices to save 50%, and if this amount is placed in the savings'-bank, the labourer obtains an annuity not exceeding thirty shillings a year, as his reward for self-denial and prudence. If old age or sickness compels him to cease work, his position is scarcely improved at all by the money which he had saved. If he had been improvident, and saved nothing, he would have received parish allowance; but the poor-law guardians perform their duty when they grant just sufficient relief to enable a man to live; the labourer, therefore, who possesses an annuity of

*The importance of affording the working classes a good investment for savings,*

BOOK II.  
CH. I.

thirty shillings a year will obtain from his parish, if he requires relief, thirty shillings a year less than the man who has recklessly spent everything that he has received. Under these combined discouragements, it is not surprising that our labouring classes have been extremely improvident. No labouring man, in fact, has ever had definitely placed before him the prospect that he would be able himself to employ his savings as capital, and enjoy the profits arising therefrom. Our labourers, therefore, could never be cheered with the hope of improving their social position, for they must have seen that at least 99 out of every 100 of those whose parents are hired labourers, always remain in the same condition. Now it is evident that, as far as the investment of money is concerned, such cooperative stores as those we have described afford the labouring classes opportunities for obtaining profits which they never possessed before. We shall moreover presently show, that the cooperative principle, when applied to trade and manufactures, enables the labourer to support his industry with his own capital, and in this manner to rise from the mere status of a hired labourer. The figures we have already quoted sufficiently prove the eligible nature of the investment which is provided by a well-managed cooperative store; for the profits realised at the Rochdale store not only provide a dividend of five per cent. on capital, but also enable a drawback of 1s. 1d. in the pound to be paid, on the amount of each customer's purchases. The labourers, moreover, obtain unadulterated articles at the ordinary retail prices. And they are in another way greatly benefited by dealing at a cooperative store, for these establishments give no credit; and nothing has been a greater bane to the working man than the facility with which he is permitted to get into debt. He is thus encouraged in extravagance, and the shop to which he is indebted has the power to extort from him very high prices, for inferior articles.

*And thus giving them the means of rising in position.*

*Other advantages of cooperative stores.*

The labourers derive from these cooperative societies



other advantages of no less importance than those pecuniary benefits which we have been just describing. There can be no doubt that these societies promote a most healthy social intercourse between workmen; for at frequent meetings the shareholders consult each other upon matters of business; they have to show their discrimination in selecting the proper persons to be managers; and, in fact, the experience of the Rochdale store proves, that a cooperative society can succeed in carrying out many a social improvement which would not otherwise be introduced. Thus two and a half per cent. of the profits realised at Rochdale support an excellent reading-room and library, which the shareholders, as well as their wives and families, are permitted to use gratuitously; the society organises excursions, and often performs some united work of charity: not long since, its members presented a magnificent drinking-fountain to their fellow-townsmen. A cooperative store may, moreover, become a particularly powerful agent in benefiting the working classes, because it can be conducted on the smallest possible scale. The experiment can be made without involving any expense; any half dozen working men may try the plan as it was tried in 1844 at Rochdale, by clubbing together sufficient to purchase a chest of tea from a wholesale grocer. If they find their first efforts are successful, they may gradually develope their plan, until at length it becomes a great and important trading establishment.

It has been in this chapter incidentally stated, that labourers have sometimes applied the cooperative principle to various branches of industry, with the view of appropriating to themselves the profits which are realised by capitalists. The establishment of a cooperative store is prompted by a different motive, because, in this case, the chief object which the labourers have in view is to supply themselves with food of the best quality, on the cheapest possible terms. It is very necessary that this distinction

BOOK II.  
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*The promotion of a healthy social intercourse.*

*Distinction between co-operative stores and cooperative trading establishments.*

BOOK II.  
CH. X.

*Paris  
society of  
cooperative  
masons.*

between a cooperative store and a cooperative trading establishment should be carefully observed. The reasons, however, which induce us to insist on this distinction will be better understood when we have given a detailed description of a cooperative trading society. The particular establishment we intend to describe is a society of cooperative masons which was founded in Paris in the year 1848. A small society of cooperative masons was established in the year 1848 in Paris. This society was re-proached for holding certain political opinions, and the government attempted to discourage it by refusing to it any loan of capital. This intended hostility insured its future success; for the societies which were assisted by the government, in almost every instance, proved to be failures. The cooperative masons endured many vicissitudes, and in the year 1852 they determined to reorganise their society. It then consisted of only seventeen members, and possessed no capital. They resolved to create a capital, by depositing in a common chest one tenth of their daily earnings. At the end of the first year a capital of 14*l.* 10*s.* was in this manner created. At the end of the year 1854 the capital had increased to 680*l.*; and in 1860 the society consisted of 107 members, and the capital possessed by them was 14,500*l.* The following are some of the important buildings which have been constructed in Paris by this society—The Hôtel Fould, in the Rue de Berry; the Hôtel Rouher, in the Champs Elysées; the Hôtel Frescati, Rue de Richelieu; the Square d'Orleans, Rue Taitbout, &c. And at the present time these cooperative masons are building an hotel for M. Girardin, on the Boulevard of the King of Rome; an hotel for M. Arsénne Haussage, on the Boulevard de l'Empereur; and an hotel at Montrouge, for M. Pacotte. No labourers except the shareholders are employed by this society. The labourers are paid the ordinary wages current in the trade, and the nett profits realised are apportioned in the following manner:—two

fifths of these profits form a fund, from which the annual dividend on capital is paid; and the remaining three fifths are appropriated to provide an extra bonus on labour. The bonus which each labourer thus receives is proportioned to the amount of labour he has performed throughout the year. No arrangements that could be devised would more powerfully promote the efficiency of labour. This is the secret of the remarkable success achieved by this society. The cooperative masons have fairly entered into the great field of commercial competition; they have striven to do their work cheaper and better than others; and it is because they have proved that they can work better and cheaper that they have been employed to build residences for such persons as M. Girardin, and the others we have enumerated.

BOOK II.  
CH. X.

*The secret  
of their  
success.*

The figures which have been just quoted prove the great pecuniary advantages which the labourers derive, if they are enabled, by forming themselves into associations, successfully to carry on trading operations. Now it will be instructive somewhat further to analyse the benefits which are thus conferred. In the first place, it may be observed, that the labourers receive the whole profits which result from their industry, because they themselves supply the capital which is required. Another most important effect seems likely to result from these associations, for they appear to hold out a fair prospect of correcting a very discouraging tendency, which is associated with the present rapid accumulation of wealth. For we have previously remarked, that each year the production of wealth is conducted on a greater scale; manufactories are enlarged, farms are extended in area, and in every branch of industry there are those who seem, from the very vastness of their capital, to monopolise additional profit, and thus compel the smaller producers to succumb. Hence each year it becomes more difficult for the labourer to engage in any industry on his own account. Some centuries since,

*Advantages of co-  
operative  
trading es-  
tablish-  
ments.*

*They tend  
to neu-  
tralize the  
growing  
advantage  
of large  
capitalists  
over small.*

BOOK II.  
CH. X.

the agricultural labourers might hope, by ordinary prudence, to occupy one of the small farms into which the land was then divided; and quite within recent times, a great portion of the manufacturing industry of the country was carried on in the cottages of the hand-loom weavers. A hand-loom weaver might readily supply the capital which his industry required, for it was only necessary for him to purchase an inexpensive apparatus, and a small quantity of raw material. But agriculture, manufactures, and every other branch of industry now requires expensive machinery, and cannot successfully be conducted without large capital. Hence the industry of the country must be conducted by two distinct classes, namely, employers, who supply the capital, and workmen, who provide labour; unless those who labour agree to form themselves into associations, and subscribe amongst themselves sufficient capital to carry on production upon a large scale. It must be quite evident, that cooperative trading establishments, when successful, as it were intensify many of the advantages which labourers derive from cooperative stores. But we have separately described these two classes of institutions, because we think that the success of the former may be imperilled by many circumstances which do not affect the latter. In fact, we have already stated that, in the case of a cooperative store, success may be almost guaranteed. For a certain number of customers are secured before business is commenced; the expenses are extremely small, no credit need be given, and therefore the operations can be extended and contracted, and consequently no great loss need ever be incurred by a falling off in the demand. But the case is very different with regard to a cooperative society carrying on some branch of industry for profit. When this is done, every one engaged in the same trade or manufacture is competing for profit. Let us therefore enquire, whether a cooperative trading society enters into the competition with any particular advantages or disadvantages.

*They are, however, liable to many difficulties which do not affect cooperative stores.*

So far as the disadvantages are concerned, it may be remarked, that a cooperative society is in many respects a joint-stock company. In fact, the only real distinction between them is this; in the former the labourers who are employed supply the capital, whereas in an ordinary joint-stock company the capital is subscribed by those who neither labour nor take any active part in the management of the concern. A cooperative society has therefore to contend with all those obstacles which so often prevent the success of a joint-stock company, when it has to compete with the individual trader or manufacturer. Has, therefore, a cooperative society any special advantages to set off against these obstacles in the way of success? In our opinion, some special advantages pertain to a cooperative trading society, because the capital required is supplied by the labourers; consequently each individual who is employed participates in the profits that are realised, and has therefore a direct interest in the work in which he is engaged. Hence all those feelings are called forth which stimulate the energy and activity of the employer; the workman is no longer listless and apathetic, but, as has been well said, cooperation secures the most efficient workmen, and calls forth their best efforts. To this circumstance is solely due the remarkable success which has been obtained by the cooperative masons in Paris. They, at the commencement, were favoured with no special advantages, custom was not given them from a feeling of charity, but they had to fight their way in the broad open field of competition; in fact, the difficulties the members of this Parisian society had to contend with were the same as those which must be struggled against if a few of our builders' operatives commenced a similar undertaking in London. If members of our nobility had their mansions erected by a cooperative society, in preference to the great builders of the metropolis, it would be quite evident that the cooperative society was chosen because it

BOOK II.  
CH. X.

*Disadvantages common to cooperative societies and joint-stock companies.*

5

*How these disadvantages were overcome by the masons' society in Paris.*

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CH. X.

did its work in a more efficient and more economical style. The success, therefore, of the Paris society must be due to similar causes—namely, to efficiency and economy of workmanship; and these qualities have been secured because cooperation makes the labourer feel that he has a direct interest in the prosperity of the particular business in which he is employed.

*Progress of  
the cotton  
mill at  
Rochdale.*

It would, however, be unfair to the labouring classes if we induced them to believe that all cooperative trading societies have achieved as much prosperity as the cooperative masons of Paris. For instance, a large cooperative cotton mill was opened at Rochdale about three years since, and it has of course been affected by the same untoward causes which have cast universal gloom over the trade of Lancashire. There are one or two circumstances connected with this cooperative mill which may be dwelt upon with advantage. It is not surprising that the large profits which were realised at the Rochdale Pioneers' store should have suggested to some of its shareholders the advantage of extending the same principle to manufacturing industry. Accordingly, in the year 1855, a room was rented, and filled with looms; large profits were at once obtained, even from this imperfect effort. The cotton trade was then at the height of its prosperity. Great encouragement, therefore, was offered to extend this scheme; a part of an old mill was rented, and it was filled with ninety-six looms; the capital in the concern at this time was 5,000*l.*, the annual profits realised were thirteen and a half per cent., and the following rules of management were adopted. A dividend of five per cent. was paid upon capital, and this was considered the first charge upon profits; one half of the remaining profits was paid as an extra dividend on capital, and the other half was distributed as a bonus amongst the labourers; each labourer's share of the bonus being in proportion to the amount of wages he earned. The labourers, however, were paid the ordinary current

wages, and therefore this bonus was an additional gratuity; hence such a society had the opportunity of engaging the most efficient workmen. The first success was so great, that numerous other workmen were anxious to subscribe their capital, and it was soon found that the capital subscribed was so great, that a larger mill was required than any which could be rented. It was therefore resolved to build one: it was commenced in 1856, and completed in 1860, at a cost of 45,000*l*. The newest and most approved machinery was placed in it, and authorities agree that there is not a better mill in the whole country. The erection of this mill even did not exhaust the capital which the labourers were willing to subscribe; accordingly a second mill was soon commenced. The cooperative manufactory happened to be opened at the very time when the dearth of raw cotton was commencing, and the undertaking has consequently hitherto been financially disastrous. The shareholders have shown great forbearance in con-

tending against these unavoidable misfortunes, but time can only prove whether this cooperative undertaking will continue to survive the present crisis in the cotton trade\*.

*Difficulties to which it has been subjected by*

\* Our belief that this cooperative institution will survive the crisis in the cotton trade has been much strengthened by the information contained in a letter just received from Mr. Ashworth, one of the very intelligent managers of the Pioneers' Society. He writes to us at the end of November 1862, when the distress in the cotton districts was felt in its full intensity, and yet he assures us that the cooperative cotton mill is working three days a week, although many of the adjoining mills are completely closed. A cooperative cotton mill may thus continue working if its returns are sufficient to pay the wages of the labourers, because if these labourers are shareholders, they may regard the wages which they receive as a return, partly for their labour and partly for their capital, whereas the individual mill-owner will not continue to embark capital in his business if this capital meets with a very much less return than he could obtain for it in some other investment.

Mr. Ashworth's letter also strikingly corroborates what we have stated with regard to the small risk of loss in a cooperative store, for the Pioneers' Society at Rochdale, although surrounded with distress, continues prosperous; and Mr. Ashworth states that some new premises have been lately bought, and that their corn-mill is now being enlarged for the third time.

At the close of the year 1864, while the second edition of this work is passing through the press, I am rejoiced to hear that this cooperative

BOOK II.  
CH. X.*the present  
crisis.*

The circumstances, however, which have proved adverse to this cooperative manufactory, are entirely exceptional. If it should fail, no one ought for that reason to lose faith in the utility of the cooperative principle; all that ought to be deduced from such a failure is, that the cooperative principle had been perhaps too hastily applied to a branch of manufacturing industry which is probably more speculative than any other. For, in the cotton trade, periods of great activity have always been succeeded by times of corresponding depression. In fact, any cooperative trading establishment is a much more hazardous undertaking than a cooperative store; for the former is liable to be prejudicially affected by dullness of trade, whereas a cooperative store is subject to no such fluctuations in prosperity; the main object it has in view is to supply the labourers with the first necessaries of life, and the demand for these does not vary greatly from year to year.

*The principle of dividing a share of the profits amongst labourers has been disregarded at Rochdale.*

It ought to be stated that the cooperative masons in Paris never employed any labourers but those who were shareholders; the advantage of adopting this rule is very apparent, and, unfortunately, English societies have not adopted a similar regulation. Thus, in the cooperative cotton manufactory at Rochdale, many of the labourers who were employed were not shareholders, and hence a hostility of interests was at once created which it is the main purpose of cooperation to prevent, for the shareholders of the society who were not also labourers soon said, Why should we give up a portion of the profits to those who only labour, and who have supplied no capital? We have no difficulty in obtaining operatives even without this gratuity, and we are therefore making a free gift, which we might appropriate to ourselves. Many, however, of the more thoughtful shareholders said, Our cooperative society is based upon the fundamental principle that

cotton mill is still kept working three days a week, although the crisis in the cotton trade has continued with almost undiminished intensity. :



labourers should share the profits. If they do not do so, our society is at once converted into an ordinary joint-stock company, and we are deprived of all our special advantages for obtaining success. This advice was at first attended to, but ultimately the opposite party prevailed, and it has been lately decided that the labourers shall no longer be entitled to any share of the profits. Those, therefore, who establish a cooperative trading society ought most rigidly to observe the rule, that none but those who subscribe capital should be employed as labourers. Such a regulation will provide the best guarantee against the unfortunate error which has been committed at Rochdale.

After the most careful consideration of the whole subject, we come to the conclusion, that cooperative stores, whether on a large or small scale, are almost sure to prosper. We therefore trust that the rapid extension of these establishments, which is at the present time taking place throughout the country, may continue. With regard to cooperative trading societies, although we think the benefits to be derived from them cannot be exaggerated, yet their success is not so certain, and we therefore trust that they will be commenced with great caution, and that the labourers who undertake them will thoroughly appreciate beforehand the difficulties with which they will have to contend. The trade to which the cooperative principle is applied ought not to be of a speculative nature, and we therefore think that it was perhaps a somewhat hazardous experiment to found a cooperative cotton mill. It is quite possible that a farm, for instance, might with great advantage be cultivated by associations of labourers\*.

*Prospects  
of success of  
cooperative  
stores.*

\* While this work was passing through the press, I heard for the first time that a considerable area of land belonging to Mr. Gurdon, of Assington Hall, Suffolk, has been during many years most successfully cultivated upon the cooperative principle. Mr. Gurdon informs me that he has long been much impressed with the miserable condition of the agricultural labourers upon his own and neighbouring estates. He therefore determined, about thirty years since, to establish some cooperative farms. He accordingly let his land to the labourers who were employed upon it, charging them the

The quantity of corn and meat that is purchased by the Rochdale Pioneers would require a large farm to produce it, and there is no reason whatever why growing their own wheat should not be as possible as grinding their own flour has proved to be. In conclusion, we will only further state that the cooperative principle can be most advantageously applied to those branches of industry whose success is mainly determined by the skill, care, and energy of the individual workman, for it cannot be denied but that cooperation must call forth all those qualities upon which the efficiency of the workman depends\*.

ordinary rent which would be paid by a tenant farmer. He advanced them sufficient capital to cultivate the land, and this capital was to be repaid in a certain number of years. Mr. Gurdon has now been repaid all the capital which he originally advanced, and these cooperative farms are in the highest state of cultivation. The labourers, as at Rochdale, select from amongst their own body a committee of management, and those who are employed receive the ordinary agricultural wages. The profits are divided according to a plan very similar to that which has been adopted at Rochdale. It is hardly necessary to remark, that the labourers who are employed on these cooperative farms possess social and material advantages which never fall to the lot of ordinary agricultural labourers.

Mr. Gurdon deserves the homage which is due to one who benefits his fellow-men, for he has practically shown, by his successful experiment, how the condition of those labourers may be improved who are the poorest, and therefore the most wretched.

\* During the time which has elapsed between the publication of the first and second editions of this work I have heard with great pleasure that a cooperative store has been established in New York, and has already achieved considerable success. The Messrs. Sinclair, who are leading merchants at Belfast, in Ireland, have a branch establishment in New York. Mr. J. M. Sinclair is the representative of the firm in that city, and to him is due the credit of being the originator of the first cooperative institution which has been established in America. Mr. Sinclair had long been anxious to provide the men in his employment with an eligible investment for their savings, and he had also recognised the difficulty which they experienced in purchasing unadulterated food at reasonable prices. Mr. Sinclair, when he had read the account of the Rochdale Pioneers' Society, at once perceived that a similar institution would secure to his workmen the advantages which he was most anxious they should enjoy. He accordingly assembled his men, recounted to them what had been achieved at Rochdale, and advised them immediately to commence a similar undertaking. A cooperative store was at once established, and its success has been so great, as to justify the expectation that in America the cooperative principle is likely to spread as rapidly as it has in England.

## CHAPTER XI.

## ON THE ECONOMIC ASPECTS OF SLAVERY.

IT has been already remarked, that when land is cultivated by a peasant proprietor, the entire produce belongs to him, because he provides the land, labour, and capital; but this ownership of land, labour, and capital, by the same individual, is also characteristic of slave cultivation, for if a farmer owns slaves, they are as much a part of his capital as the horses which plough his ground. When land is cultivated entirely by slaves, no portion of the produce is allotted to the labourers in the form of wages; slaves are not permitted to possess property, and they are therefore never paid wages; they of course have to be fed, and so have the horses which till the ground. Slaves therefore should not be regarded as labourers receiving wages, since they are as much a portion of the cultivator's capital as any kind of stock or implements which he may possess. Consequently, in slave cultivation, the produce of the land has not to be distributed between rent, profits, and wages; but simply between rent and profits.

Even if slavery were not so universally condemned as it is, a discussion on the moral effects of slavery would not properly belong to political economy; for this science only undertakes to investigate the phenomena which concern wealth. No unimportant service, however, will be rendered to every philanthropist, and to every lover of freedom, if the principles of political economy demonstrate that slave labour is inefficient and un-economical, and that it ulti-

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CH. XI.

*The produce of slave cultivation is divided amongst two classes.*

*Importance of considering the economical effects of slavery.*

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CH. XI.

mately diminishes the productiveness of the soil. If these facts can be established, slavery must ultimately work out its own destruction, provided that the area over which it is permitted to extend can be restricted. The complete emancipation of the African negro really, therefore, depends upon economic considerations, for if large profits are permanently realised by slave labour, the day is indefinitely remote when the present slave-holding States will become sufficiently moral to resign a productive source of wealth, simply because it involves a cruel injustice.

*Defects of  
slave  
labour.*

The economic aspects of slavery have never perhaps before been discussed in so clear and masterly a manner as in a recent work by Professor Cairnes, on 'The Slave Power.' This writer has most aptly said, that the labour of the slave has the three following defects:—'it is given reluctantly; it is unskilful; it is wanting in versatility.' We will, therefore, in the first place, explain the causes which produce, and the consequences which result from, each of these defects. No one can doubt but that slave labour must be given reluctantly. The only object which the slave can have is, to do no more work than is sufficient to prevent corporal or some other kind of punishment being inflicted upon him; the slave has no more interest in the prosperity of the industry in which he is employed than the mere beast of burden, for whether the crops are good or bad, the slave is sure to be fed. An able-bodied slave can be sold in America for 250*l.*, and therefore the self-interest of the slave owners will always provide a guarantee that the physical comforts of a slave will not be so much neglected as to endanger his health. No farmer, if he were in his proper senses, would ever permit a valuable horse to suffer, either from ill treatment or from want of food, for if he could not afford to keep the horse properly, it would of course be better for him at once to sell it. A slave therefore has no motive to exert himself, for whether he is industrious or not, he is sure to obtain

*It is given  
reluctantly.*

the food and clothing which his master thinks he may require. Consequently, his labour is as it were extorted from him, and he requires to be most vigilantly watched. Slaves can therefore only be advantageously employed when the work upon which they are engaged is such that they can be collected together in gangs, for it is impossible to watch a great number of workmen when they are scattered about. This consideration suggests the reason why the only commodities which have been produced on any large scale by slave labour are cotton, tobacco, sugar, and rice; for the cultivation which each of these commodities requires is characterised by the circumstance that a great amount of labour is employed on a very small area, and the labour can therefore be concentrated. Mr. Olmsted, whose most valuable work on 'Slavery' contains an exhaustive record of facts, has calculated that one labourer will cultivate ten acres of wheat, whereas one acre sown with cotton requires the labour of at least ten men. A similar remark holds true with regard to the other products, namely, tobacco, sugar, and rice, which are cultivated by slave labour. This necessity of working slaves in gangs, in order that they may be vigilantly watched, is strikingly exemplified by the present geographical distribution of slavery in America; for there is nothing in the original constitution of the states which composed the Federal Union that will satisfactorily account for the fact, that the North is cultivated by free labour, whereas the South is cultivated almost entirely by slave labour. It is sometimes hastily concluded, that Europeans cannot work in the South, but this is an entire mistake; many of the Southern States, such as Virginia, have a climate quite as well adapted to Europeans as many of the free States of the West, such as Wisconsin. The boundaries of slavery are not determined by climate, but by the nature of the products which the soil is best fitted to grow. If corn were grown by slave labour, this labour would be

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CH. XI.

*The slaves must consequently be worked in gangs.*

*This determines the products upon which slave labour is employed, and its geographical distribution.*

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CH. XI.

inefficient, because it could not be sufficiently concentrated to be adequately watched; hence slave labour becomes more expensive than free labour, and therefore cannot compete against it, when such a commodity as corn is grown. This conclusion can be corroborated in a very remarkable manner, for some parts of the Southern States, such as the slopes of the Alleghanies, are well adapted to grow corn, and the other commodities which form the staple products of the North. It is a most instructive fact, that these particular localities, although in slave states, and surrounded with slavery, are invariably cultivated by free labour. It is therefore proved that slave labour, because it is reluctantly given, must be most carefully watched; and unless this can be done, the labour of the slave becomes so inefficient that it is far more expensive than hired labour, even in those countries, such as America, where high wages prevail.

*Slave labour is unskilful.*

Unskilfulness is the second defect which belongs to slave labour, and in fact this defect is an inevitable consequence of the first defect, because, when labour is reluctantly given, it is sure to be deficient in skill. If the slave has no motive to put forth his physical energies, he certainly has no greater inducement to apply his mental faculties in order to acquire skill and dexterity; since his position would in no way be improved, even if he were to show that he was a more valuable workman than his fellows. He must be fed, and so must they; and the fact that his price would be advanced in the slave market by an increase of skill, is a matter of no consequence whatever to himself. The more a slave shows that he is capable of doing, the greater is the amount of work which will be extorted from him, and for this extra exertion he receives no additional reward whatever. It is therefore for the interest of the slave to disguise as far as possible, from his master, the amount and the kind of work which he can really perform; a heavy discouragement is consequently thrown in the way of the

least mental effort, and slave labour must always be most unskilful. These conclusions can be corroborated by specific facts, for it has never even been proposed to employ slave labour either in manufacturing, or any other industry which requires skill on the part of the labourer. We will once more refer to Mr. Olmsted, for from personal observation he gives direct testimony with regard to the unskilfulness of slave labour; thus he says that the negro slave is entirely unfit to be trusted with machinery; if he has placed in his hands any but the rudest tools, he is sure to break them. Mr. Olmsted affirms that the slave owners of Virginia find it more economic to use implements so heavy and clumsy that it increases the cost of performing work at least ten per cent., simply because they are not so liable to be injured or broken; and also mentions the very curious fact, that mules are almost invariably employed in the Southern States, instead of horses, because slaves are sure to neglect or ill use any animals which they have in charge; the mule being a hardier animal than the horse, is consequently not so liable to be injured by the want of proper treatment. These facts, and others which might be enumerated, clearly prove that no skilled industry can ever be successfully carried on by slave labour.

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CH. XI.

*Facts which confirm this proposition.*

The third defect of slave labour, namely, want of versatility, is due to the same causes as those which produce the other two defects which we have already discussed; for labour which is given reluctantly, and is unskilful, cannot possibly display any versatility. A labourer must possess considerable intelligence if he is able efficiently to perform several different kinds of work. Such intelligence, however, is sure never to be displayed by the slave; for if he only shows that he is able to do some additional kind of work, extra labour will probably be forced upon him, and therefore he rather loses than gains by acquiring versatility. Hence it is quite natural that slaves should

*Slave labour is wanting in versatility.*

BOOK II.  
CH. XI.

show a great disinclination to be taught any new kind of work; upon this point Professor Cairnes has said, 'The difficulty of teaching the slave any thing is so great, that the only chance of turning his labour to profit is, when he has once learned a lesson, to keep him to that lesson for life. Where slaves, therefore, are employed there can be no variety of production. If tobacco be cultivated, tobacco becomes the sole staple, and tobacco is produced whatever be the state of the market, and whatever the condition of the soil.'

*The explanation of these peculiarities of slave labour by the race of the slaves is untenable.*

Before we proceed to describe some important consequences which result from the defects in slave labour which have been just enumerated, it will be advisable to anticipate a remark which may very probably be made. Some of our readers may say, although it is true that the negro slave labour possesses all the defects which are here ascribed to it, yet these defects are inherent in the negro race, and do not necessarily form a part of the institution of slavery. The history of ancient countries no doubt gives some support to this opinion, for it may be urged, that when Greece was in her greatest glory, a considerable portion of her skilled industry was performed by slaves, and that they constructed buildings and other works which never have been surpassed in artistic beauty. But the social position of the Athenian slave in no respect resembles the position occupied by the slaves in the United States. Even many Americans who do not live in the slave states despise the negro as a being degraded by inferiority of race, and consider that his colour makes him a permanent outcast. But the Greek slave was generally a captive obtained in war; perhaps he was respected for the courage he had shown on the battle-field, even in defeat; he very possibly belonged to a race whom the Greeks scarcely regarded as their inferiors. The Greek slave had certain rights of property secured to him, and he always had a definite hope that he should be able, by his own exertions,



honourably to emancipate himself. His industrial energy therefore, instead of being completely destroyed, was powerfully stimulated, and unlike the negro slave, whose interest it is to be unskilful, he had every motive to exert himself to the utmost. There is therefore no parallel whatever between the condition of the Greek and that of the negro slave. Our previous conclusions are consequently not in the least degree shaken; for if slaves are as completely deprived of every human right as they are at the present time in America, we may be quite sure that their labour must exhibit all the defects which we have attributed to it, whatever may be the race to which the slave may happen to belong. From these defects in slave labour some very important consequences result, which we will now proceed to describe.

It has already been stated, that the slave is wanting in so many of those qualities which make labour efficient, that there are very few branches of industry which can be successfully carried on by slave labour. For instance, corn, and the various other products of European agriculture, are never grown by slave labour. Slaves are never employed in the manufacturing industry, because they cannot be entrusted with machinery; in fact, slave labour may be said only to produce four commodities, viz., cotton, sugar, tobacco, and rice. If any other kind of industry is attempted, slave labour is sure to be supplanted by free labour, because the superior efficiency of the latter makes it more economical. But although the four products just enumerated can be profitably cultivated by slave labour, the profit even in this case cannot be obtained unless certain conditions can be fulfilled. It is, in the first place, evident that the unskilfulness and general inefficiency of slave labour causes it to be extremely wasteful and careless. The cultivation of the land with such labour must inevitably be slovenly, and consequently the land is gradually impoverished. Moreover, there is another circumstance

*Slave labour is only applicable to a few commodities.*

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CH. XI.

*It therefore  
tends to  
exhaust the  
soil.*

which tends to impoverish the land when it is cultivated by slaves; for, at the present time, able-bodied slaves are worth no less than 250*l.* in the American markets. Hence a planter must require a capital of 25,000*l.* in order to purchase 100 slaves. The greater part of the planter's capital will probably be absorbed in obtaining slaves, and he will therefore have little to spare for carrying out improvements in his land. Hence slave cultivation gradually exhausts the soil, and it therefore becomes all-important to the slave owners that they should be able to obtain fresh soils of virgin fertility. The highest authorities, many of them slave owners themselves, agree with perfect unanimity as to the exhaustive nature of slave cultivation.

*Evidence of  
Mr. Clay.*

We will quote the very remarkable testimony of the Hon. C. Clay, who is moreover a native of the South, and an advocate of slavery. He says, 'I can show you with sorrow, in the older portions of Alabama, and in my native county of Madison, the sad *mémorials* of the *artless and exhausting* culture of cotton.' He then states that the majority of the planters had not sufficient means to improve their land, either by rest or by the application of manures, and that they consequently move farther West, or South, in search of virgin soils, which will be impoverished in their turn; and he then proceeds emphatically to affirm, that 'a country in its infancy, where fifty years ago scarce a forest tree had been felled by the axe of the pioneer, is already exhibiting the painful signs of senility and decay apparent in Virginia and the Carolinas; the freshness of its agricultural glory is gone, the vigour of its growth is extinct, and the spirit of desolation seems brooding over it.' These most suggestive remarks of Mr. Clay might be easily corroborated by a great mass of similar evidence, and it may therefore be regarded as conclusively proved, that slave cultivation cannot continue to be profitable unless the slave holders have at their command an abundant supply of fertile virgin soils. This

suggests an explanation of the policy which has been long pursued by the Southern States of America; for they have ceaselessly directed their efforts to bring new and unoccupied territories under the dominion of slave institutions. Texas was unjustly seized from Mexico, and yet its soil was not immediately wanted, for since its annexation comparatively few slaves have been located there. The South, however, fully recognised the future importance of acquiring this vast area of fertile and unoccupied land. Similar motives induced the South to strain every effort to obtain possession of Kansas. (It is doubtless an error to suppose that the present Civil war in America will decide the immediate abolition of slavery; no practical scheme for attaining this object has been as yet proposed, but the great question which is at stake is this—Shall the limits of slavery be indefinitely extended? The friends of abolition may be well satisfied if slavery can be confined within its present limits, for the defects which inherently attach to slave labour are such that slavery must cease to be profitable, and therefore will ultimately be extinguished, if it is permitted to work only upon a restricted area of land. ]

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CH. XI.

*Explanation of the policy of the South.*



**BOOK III.**

**EXCHANGE.**



**BOOK III.**  
**EXCHANGE.**





## CHAPTER I.

### ON VALUE AND PRICE.

THE subject of exchange is so intimately connected with every question of political economy, that many writers on this science consider that the production and distribution of wealth cannot be understood without previously ascertaining the laws of exchange. There is reason for this opinion, because it is quite true that commodities are only produced to be exchanged for other commodities, and the distribution of wealth of course implies the exchange of wealth. We believe, however, that clearness of conception is obtained by the arrangement which we have adopted in this work, for we have been able to discuss the laws of the production and distribution of wealth, without anticipating any of the laws of exchange, which we shall now proceed to explain.

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CH. I.

*Reasons for not previously considering value.*

We have already occasionally employed the words value and price, without giving these terms any precise definition. But before investigating the laws of exchange, it is most important to define these words accurately; for many of the most wide-spread errors with regard to economic science arise from confusing the words value and price. The difference in their meaning will be best marked by an illustration. If a sack of wheat exchanges for a ton of coal, or if, in other words, a person who possesses a sack of wheat can obtain a ton of coals in exchange for it, then a ton of coals is the value of a sack of wheat, or, employing more popular phraseology, a sack

*Distinction between value and price.*

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CH. I.

of wheat is worth a ton of coal. It therefore appears that value implies the comparison of one commodity with another; for a sack of wheat has some particular value with regard to every commodity for which it can be exchanged. If a sack of wheat could be exchanged for six pounds of tea, then six pounds of tea would be the value of a sack of wheat, when estimated in this particular manner. Value, therefore, is a relative expression; for instance, if the value of wheat compared with any particular article falls to a certain amount, there must be a corresponding rise in the value of this commodity, compared with wheat; for if wheat declines in value, so that it will only exchange for half as much tea, then tea must manifestly rise in value, since it will now exchange for twice as much wheat. When, therefore, the general value of a commodity declines, less of every commodity can be obtained for it in exchange; but if this be so, the value of all these commodities must rise when compared with the particular commodity in the value of which it has been supposed a general decline has taken place. These considerations demonstrate the erroneous nature of a statement not unfrequently made, that there is a general rise or fall in the value of all commodities. This is as impossible as it would be for each one of six rowers to row faster or slower than the other five. A. cannot row faster than his five companions, except by each of these rowing slower than A. In a similar manner value is a relative expression, and essentially implies comparison. It is quite impossible that there should be a general rise of values, for if there is a rise in the value of one commodity, there must be a fall in the value of all the commodities with which this one is compared. All that is here stated may appear so simple, that it may perhaps be supposed we are wasting time in explaining self-evident truths. But if these truths are self-evident now, they are far from being so when observed in the entanglement of a more complicated proposition, for

*A general rise or fall of value is impossible.*

we shall be enabled to show that a shade of error has been cast over the speculations of some of the most accomplished writers on political economy, because they have neglected the simple considerations which we have mentioned with regard to the meaning of the word value.

Price is a particular case of value. If the value of a commodity is estimated by comparing it with those precious metals which civilised countries employ as money, then it is said that the price, and not the value of a commodity, is ascertained. If a sack of wheat is exchanged for a quantity of gold, termed a pound sterling, it would be perfectly correct to say that the value of a sack of wheat, estimated in gold, is one pound sterling; but for reasons which will be afterwards explained, it is found convenient to single out this case of value from every other, and consequently it receives a particular name, for it is not termed value, but price. The price of a commodity may therefore be defined as its value, when estimated by comparison with those precious metals which civilised countries have by general consent adopted as money. We have already explained that there cannot be a general rise or fall in values; there can, however, be a general rise or fall in prices. If the precious metals become much more plentiful, their value compared with all other commodities declines, for a certain quantity of gold or silver will exchange for a diminished quantity of all other commodities. But if the value of the precious metals, compared with other commodities, is diminished, then the value of all other commodities, compared with the precious metals, must be increased; but, according to our definition, the value implied in this latter comparison is termed price, and consequently the price of all commodities will be increased. It is therefore evident that there may be a general rise in prices, although there cannot be a general rise in values.

BOOK III.  
CH. I.

*Price is value estimated in the metals used as money.*

In political economy we may, of course, elaborate a *Reasons for*

BOOK III.  
CH. I.

*considering  
price in-  
stead of  
value in  
this trea-  
tise.*

system of propositions which treat of the value of commodities, and not of their prices. This is usually done, but it only adds to the difficulty of the subject, without attaining any practical object of utility; for none of the transactions of trade and commerce in civilised countries are ever arranged without the machinery of a monetary standard. Money has aptly been described as the universal medium of exchange. If it is desired to ascertain how much of one commodity another will exchange for, the calculation is always made in money; the prices of the commodities, and not their values, are considered. If, for instance, a person who possessed wheat desired to purchase coal, it would be important for him to estimate the value of wheat compared with coal; but he would not attempt to do this by actually bartering away his wheat for coal; such bartering would be cumbrous and expensive. All that it would be necessary for him to do would be to ascertain how much money his sack of wheat would exchange for. When he thus knew the price of a sack of wheat, and also the price of a ton of coal, the value of wheat estimated in coal would be immediately known, because the quantity of coal for which a certain quantity of wheat would exchange would be accurately ascertained.

*Ordinary  
method of  
political  
economists.*

As therefore, in practice, questions of value involve a comparison of prices, we think our investigations will be simplified if we at once proceed to consider the laws which regulate the price of commodities, and make no attempt, as is usually done, to establish propositions with regard to the values of commodities, independently of any considerations concerning price. The ordinary method pursued in political economy is to establish a theory of value before any exposition is given of the functions of money. The subject of exchange is usually introduced with such chapters as the following:—Of Value;—Demand and Supply in Relation to Value;—Of Cost of Production in Relation to Value. In these chapters we

shall substitute price for value, because we shall thus be able to make our illustrations appear much more real, and therefore better understood. But until we discuss the functions of money, it will be necessary for our readers carefully to bear in mind that a certain assumption is made in all the investigations which involve the consideration of price. The assumption is this; that when the price of a commodity varies, the variation is always supposed to be produced by something which affects the value of the commodity, and not the value of the precious metals. We shall assume at present that the value of the precious metals is not affected by any change in the mines.

We will endeavour to explain our meaning still further, by an illustration. Suppose it is observed that the price of wheat rises; this rise in the price of wheat may be due to two very distinct causes. In the one case, wheat may become scarcer, and therefore dearer; in the other case, wheat in common with every other commodity may rise in price, in consequence of new discoveries of the precious metals, such as those made in Australia and California, during the last few years. We wish, therefore, in the following chapters, which precede the discussion of the theory of money, to make the assumption that all variations in price are not in any way caused by an alteration in the value of the precious metals. Our readers must, therefore, bear in mind that in the next two or three chapters the value of the precious metals is supposed to remain stationary. This assumption will enable us to explain with much greater facility many most important propositions connected with the theory of exchange; we shall then investigate the theory of money, and in this manner complete the theory of exchange.

## CHAPTER II.

ON THE CAUSES WHICH REGULATE THE PRICE OF  
COMMODITIES.

BOOK III.  
CH. II.

*Three  
classes of  
commodi-  
ties.*

**T**HE commodities which compose the wealth of a nation may be divided into three classes; and the manner in which the price of any particular commodity is regulated depends upon the class or division to which the commodity may happen to belong. The three classes may be characterised as follows:—

*Those which  
are abso-  
lutely  
limited in  
quantity.*

1st. Some commodities are absolutely limited in quantity; however great the demand may be for them, it is impossible to increase their supply. Only a certain number of sculptures and paintings by ancient masters are extant, and no efforts can increase the number of these paintings or sculptures. Again, if some particular site may be thought desirable for a house, the number of houses which can be built upon this site cannot exceed a certain limit. Thus, the shops in a thoroughfare such as the Strand, or Fleet Street, cannot exceed a certain number; articles of vertu, curiosities and antiquities, which are prized because some particular associations are attached to them, are in a certain degree fixed in quantity. There may thus be perhaps half a dozen very rare coins in the cabinets of collectors, and no one can feel certain that another of these coins will ever be discovered.

*Those of  
which the  
supply may  
be increased  
by greater*

2nd. Some commodities can be increased in quantity, without any practical limit, but if their supply is increased their production will require a greater proportional expenditure of labour and capital, and therefore these

commodities have a constant tendency to become more expensive, as the demand for them augments. We have already remarked that this character peculiarly belongs to agricultural produce. If there is an increase in the demand for agricultural produce, it becomes necessary to resort to less fertile land, which cannot be cultivated without a greater expenditure of labour and capital in proportion to the produce which is raised from it. Many of the most important speculations of economic science depend upon the tendency which agricultural produce has to become more expensive, as the demand for it increases. As an example, we may recall to our reader's recollection that Ricardo's theory of rent can be readily deduced from this law.

BOOK III.  
CH. II.

*proportional labour.*

3rd. Some commodities can be increased without any practical limit, or without increasing their cost. Manufactured goods may be placed in this class, for although the cost of the raw material will, like the cost of agricultural produce, increase as the demand for it is augmented, yet the increase of cost which is thus produced may be almost neglected, because it bears such a small proportion to the whole cost of the manufactured article. Other articles, such as household furniture and wearing apparel, may be placed in this third class. There is no reason why shoes, for instance, should become scarcer because there is a greater demand for them; there could be no difficulty in supplying any number of shoes for which there may be a demand.

*Those which may be indefinitely increased at the same rate of labour.*

We shall now explain that very different laws will regulate the price, and therefore the value of a commodity, according to the particular class of the three above enumerated to which the commodity may happen to belong. We will commence by considering the commodities included in the first class.

*Laws which regulate the price of these classes.*

The works of a departed artist have already been stated to be included in this class. Let us enquire what determines

*Example of the first class.*

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CH. II.

*The price  
of a picture  
by a de-  
ceased  
artist.*

*The state-  
ment that it  
is deter-  
mined by  
the ratio of  
supply and  
demand is  
inaccurate.*

*Meaning of  
the term  
'effectual  
demand.'*

the price of one of Turner's pictures. The price is usually supposed to be regulated by demand and supply; but the words 'demand and supply' appear to be a never failing recipe for solving every economic difficulty, and popular writers and popular speakers seem to think that an explanation based upon demand and supply must be not only very satisfactory, but also extremely scientific. The expression 'demand and supply' too often conveys as little meaning to those who use it as to those to whom it is addressed. If the question were asked, what regulates the price of Turner's pictures, it is not improbable that even many writers on political economy would say, that the price is regulated by the ratio which exists between the supply of these pictures and the demand which exists for them. But it surely must be erroneous to speak of a ratio between demand and supply; there cannot be such a ratio, for supply in this case means a certain number of pictures, and demand in this case signifies a desire to possess a picture. It is therefore absurd to attempt to establish a ratio between a picture and a desire to possess it. A ratio can only exist when the two things compared are of the same kind. It is, therefore, in this case impossible to suppose a ratio between supply and demand. Demand is an indefinite expression; every educated person would like to possess a picture by Turner, and therefore in this sense the demand for them is almost universal; but the universality of such a demand cannot surely produce much effect in determining the price of a picture; a beggar would like to have a diamond, but a jeweller does not obtain a higher price for a diamond, because every beggar may be extremely desirous to possess a diamond. This obvious ambiguity with regard to the meaning of the word demand has suggested to political economists the use of the term 'effectual demand.' It is intended to denote by this expression the demand which is exerted by those who are not merely desirous to possess some particular com-



modity, but who also have the requisite means to purchase it. It is justly maintained that this demand is the only one which can be effectual in producing any influence on prices. Although the employment of the words 'effectual demand' recognises a real difficulty, yet the difficulty itself continues to remain unsolved, for it cannot be said that the price of an article is regulated by the effectual demand for it, since a moment's consideration will clearly show that the effectual demand for an article varies with and depends upon its price. If Turner's pictures could be purchased at ten guineas each, there would evidently be a much greater demand for them than if the same pictures realised a hundred guineas each. The effectual demand, therefore, varies with the price; and adjustment takes place, and the price must ultimately be such that the effectual demand which results from it will be satisfied by the supply of the article or commodity in question. If one of Turner's pictures were to be sold, and three individuals, namely A, B, C, were each willing to give 1,000 guineas for it, the effectual demand for this picture, when its price is 1,000 guineas, would be manifestly greater than the supply, for at this price three persons have a demand for one article, which can only be purchased by one. If A and B are both willing to give 1,500 guineas for this picture, but C will not give so much, the effectual demand for this picture, when its price is 1,500 guineas, still exceeds the supply. Again, suppose that A is willing to give 2,000 guineas for the picture, but that B will not give more than 1,900; the price at which the effectual demand will equal the supply may then be any amount between 1,900 and 2,000 guineas. The price, however, which this picture might actually realise depends upon what has been aptly termed by Adam Smith the higgling of the market. Since B is willing to give 1,900 guineas for the picture, but no more; and since A will not purchase it at a higher price than 2,000 guineas,

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CH. II.

*Nature of the adjustment between supply and demand which actually takes place.*

*Higgling of the market.*

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CH. II.

the picture must consequently sell at some price between 1,900 and 2,000 guineas. If A had certain knowledge that B would not give for the picture more than 1,900 guineas, A would probably offer to purchase it at a price slightly exceeding this, and at this price he would no doubt obtain the picture. If, however, the owner of the picture knew that A would give 2,000 guineas for it, rather than not possess it, he might pretend to hesitate about selling the picture to A, and might ultimately succeed in inducing A to offer 2,000 guineas. Demand and supply, therefore, determine within very narrow limits the price of all those commodities which may be classed under our first division.

*The notion of 'ratio' between demand and supply must be discarded.*

The price which is actually realised may oscillate between these narrow limits, according as the vendor or purchaser has the most skill and knowledge of trading operations. Hence it appears that the price of all those articles which are classed under our first division are regulated, not by a ratio between the demand and the supply, but by an equalisation of the demand to the supply. The notion of a ratio ought therefore to be discarded, since it is not a ratio, but an equation.

*A further analysis is necessary.*

A further question may now arise. Why should A be willing to give 2,000 guineas for a picture, which B will not purchase at a greater price than 1,900 guineas, and for which C will not bid more than 1,500 guineas? A, it is said, considers the picture worth 2,000 guineas; but this is not a sufficient explanation. Why does he place this particular value upon the picture, whereas B and C place a less value upon it? A further analysis is consequently required.

*The two elements of value. Absolute utility and difficulty of attainment.*

Value is composed of two elements, and these two elements respectively arise, firstly from the use which the individual may have for the article, and secondly, from the difficulty he may have in obtaining it. These two elements, which are the components of value, may be symbolised by the letters U and D. U is supposed to signify value, as depending upon utility, and D signifies value as depending

on the difficulty of attainment; both of these elements must always be present whenever an article has an exchangeable value, or, in other words, realises any price. No commodity can be more essentially useful than water, yet water has never any exchangeable value, unless there is some difficulty in obtaining it. It is true that in large towns water has an exchangeable value, and it is consequently sold at a certain definite price, but in this case the element D is present, for in large towns there is a difficulty in obtaining water; the spontaneous supply which nature provides soon becomes exhausted, and water has at a considerable outlay to be brought from a distance. On the other hand, no article can obtain exchangeable value unless the element U is present; since difficulty of attainment will not make an article valuable, unless it either can serve some practical use or gratify some desire. A precious stone, such as a ruby, is prized as an ornament; it therefore has its use, because it serves to gratify a desire. It is generally said that rubies are very valuable, because they are so very difficult to obtain; but if, in consequence of a change in fashion or taste, they should ever cease to be prized as an ornament, they will then have no value at all, although it might be just as difficult to find a ruby as before. Both the elements U and D must therefore co-exist in every article which has exchangeable value, for an article, however difficult to obtain, can have no value unless it is capable either of supplying some want, or gratifying some desire; on the other hand, no article can possess exchangeable value, if it can be obtained without difficulty, although the article may be of prime necessity.

*The first exemplified in the case of water.*

*The second in the case of precious stones.*

It is not possible beforehand to predicate in what proportion the two elements U and D may combine to form the value or price of any particular commodity. In almost every case the price at which an individual purchases a commodity represents in value only a very small portion of the use or advantage which the possession of the

*The price may be determined by either or both of these elements.*

BOOK III.  
CH. II.

article confers upon the individual who purchases it. A person buys a coat for three pounds, because at this price a coat of the quality he requires is offered to him; but three pounds does not represent the use which the person who purchases the coat derives from it, for if he had the money he would no doubt give thirty guineas, rather than be without a coat; therefore, in this case, the element U only exerts a small portion of its whole force in determining the price of a coat. The price is in this case entirely regulated by D, or, in other words, by the difficulty of obtaining the coat. As, however, we have before remarked, U, although only partially operative, can never be entirely absent.

*The utility can be the sole element operative, only when the supply is absolutely limited.*

The example just quoted illustrates the manner in which, in almost every case, the two elements U and D combine to produce the price of a commodity. U is in fact almost invariably only partially operative; this is the general rule, for the case may be regarded as a very rare exception when U as well as D both exert their full influence upon the price of an article. When such a case does occur, the purchaser of a commodity is guided, in the price which he offers for it, solely and entirely by the consideration of the use he expects to derive from the article. This can only happen when the supply of a commodity is absolutely limited. To explain this still further, let us revert to our original example, which supposes that three persons, A, B and C, are each anxious to purchase some particular picture by Turner; C will not give more than 1,500 guineas for it, B not more than 1,900, and A ultimately purchases it at a price between 1,900 and 2,000 guineas. With regard to C and B, 1,500 guineas and 1,900 guineas represent the value in use, which C and B respectively place upon the picture. This, therefore, is the monetary value of the element U, according to the individual opinion of C and B. In A's estimation, the value of the element U is greater, for to him the picture has a value

*Exemplified by the former instance.*

of 2,000 guineas. As we have before said, the price which the picture actually realises will be some amount between 1,900 and 2,000 guineas, because if the price sank below the inferior limit there would be a greater demand for the picture than the supply, and if the price exceeded the superior limit the demand would entirely cease, because this superior limit denotes the greatest value in use placed upon the picture by the person who is most anxious to possess it. To recapitulate, therefore, it may be stated, that the following principle regulates the price of all those commodities whose supply is absolutely limited. The demand depends upon the price; the price must be such that the demand will exactly equal the supply.

The value in use which an individual may happen to set upon some particular article is the result of various motives, which it is almost impossible to analyse. Thus we have seen that to an individual, A, the value in use of one of Turner's pictures is 2,000 guineas, for A would rather give this sum than be without the picture. To B, however, the value in use of the same picture is only 1,900 guineas. It is quite evident that various motives may induce a greater value in use to be attributed to this picture by A than by B; A may be a much wealthier man than B, and money may consequently not be of so much importance to him. A may perhaps also have a superior taste for art, which makes his appreciation of a painting greater than that of B. A may also be influenced by a hope of future gain, since he may expect to realise considerable sums by granting permission to have the picture engraved, or he may think that after a few years have elapsed the demand for the works of the particular artist may so increase as greatly to enhance the value of the picture. In every case, a great variety of motives operate upon different individuals in determining the value in use which each may place upon any particular article.

*Value in use cannot be analysed.*

The class of articles such as these we have been con- *The value*

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*of the class  
of articles  
absolutely  
limited is  
often  
obscurely  
explained.*

sidering, whose supply is absolutely limited, is so restricted, that our readers may perhaps think we have analysed this case of value or price with unnecessary minuteness. It is, however, somewhat curious that these points of political economy which are apparently the most simple are usually treated with the greatest obscurity, for, with few exceptions, every writer on political economy has failed clearly to explain the principles which regulate the price of commodities similar in character to those we have been considering.

In the succeeding chapter we shall analyse the causes which determine the price of those commodities which we have placed in the second of the three classes we have enumerated. This second class, as has been stated at page 312, comprises those commodities which can be increased in quantity without any practical limit, but if their supply is increased their production will require a greater proportional expenditure of labour and capital, and therefore these commodities have a constant tendency to become more expensive as the demand for them augments.

## CHAPTER III.

## ON THE PRICE OF AGRICULTURAL PRODUCE.

WE give the above title to this chapter, because the commodities whose price we are now about to discuss may be described as agricultural produce, in broad distinction to manufactured goods, the supply of which may be increased without any practical limit, and at the same time without any increase in the cost of production. Such commodities belong to the third and last of our divisions, and the principles which regulate their price will be considered in the next chapter.

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*The second class of articles is chiefly agricultural produce.*

Many causes, which are well known to all, make the price of agricultural produce vary from year to year. Our corn markets are influenced not only by the productiveness of the last harvest, and by the prospects of the next, but they are also sensibly affected by the good or bad crops of other countries. Since so many circumstances may cause a great fluctuation in price, it may perhaps appear impossible to establish any general laws with regard to the price of agricultural produce. We shall, however, be able to show, that even the variations in the price of such produce, though constant and great, obey certain laws with strict regularity.

*They are subject to considerable fluctuations in price.*

No farmer will rent land unless he believes that the price at which the produce of the land may be sold will, on the average of years, suffice to pay his rent and all the expenses of cultivation, and leave a surplus adequate to remunerate him, not only for the capital he has invested

*Determination of the ordinary profits of farming.*

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in the business, but also for his own labour of superintendence. When the farmer is fairly remunerated for his labour and capital he may be considered to realise the ordinary profits of trade. It is quite impossible that the prices in any particular trade can permanently be so low as to prevent these ordinary profits being realised, because no class of traders would be satisfied to continue investing their capital in a business if much smaller profits were realised from this business than from others. Hence we arrive at the following principle, which will prove a useful guide in this investigation—the price of agricultural produce must be such as will enable farmers on the average of years to realise the ordinary profits of trade.

*They are determined by the average value of the produce after deducting the rent.*

The profits of the farmer have above been described as the surplus which remains when all the expenses of cultivation have been deducted from the pecuniary value of the annual produce of a farm. These expenses include rent, the wages of labourers, the purchase of new implements, the wear and tear of old implements, the loss which arises from the ordinary casualties to which live stock is liable, &c. It must be evident that any cause which increases the farmer's expenses must diminish his profits. Suppose the average annual value of the produce raised from a farm is 2,000*l.*, and that the expenses of cultivation are 1,500*l.*, the farmer having to pay 500*l.* in rent, 800*l.* the wages of his labourers, and the remaining 200*l.* being required for various other necessary expenses, such as the purchase of implements, &c., which need not be enumerated. Deducting the 1,500*l.* from the 2,000*l.*, which is the annual average value of the produce of the farm, it is evident that the 500*l.* which remain would be the farmer's profits. Now let it be further assumed, that this 500*l.* is a fair remuneration to the farmer for his capital and labour of superintendence. Consequently, when his profits are 500*l.*, he may be considered to realise the ordinary profits of trade. In this case, the prices obtained for the produce,



combined with various other conditions supposed, cause everything to be in a state of perfect adjustment. It has, however, frequently happened, that the rent of land has in the course of a few years very much risen. Let us enquire what will occur if the rent of this farm is increased from 500*l.* to 700*l.* a year, whilst the price of agricultural produce, and the expense of cultivating the farm, remain unchanged. This increase of rent would reduce the farmer's profits from 500*l.* to 300*l.*; but it has been above assumed, that when his profits were 500*l.*, he obtained no more than the ordinary remuneration for his capital and labour of superintendence. He consequently receives less than the ordinary remuneration when his profits are reduced to 300*l.* He therefore virtually cultivates his farm at a loss, because he would secure a larger income if he applied his capital and energy in some other business. Under these circumstances, farmers would be induced gradually to leave their farms, and the land would be thrown out of cultivation. This we know can never occur; the people must be fed, agricultural produce is required, and the land must be cultivated. We may therefore conclude, that neither rent, nor any other items of the expense of cultivating land, such as cost of labour, can be increased, unless the farmer receives a compensating remuneration from a rise in the price of agricultural produce. Let us now, however, revert to Ricardo's theory of rent, in order to understand how a rise in rent is produced.

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*Effects of a  
rise of  
rents.*

This theory describes rent as a price which is paid for the use of an appropriated natural monopoly. And this monopoly arises from the fact, that the supply of fertile land which can be brought under cultivation, in any particular country, cannot be increased beyond certain limits. The difference between the rents paid for two different farms represents the excess of the pecuniary value of the one farm above that of the other, whether derived from greater fertility or from superior advantages of situation.

*Cause of a  
rise of rents  
as deduced  
from  
Ricardo's  
theory of  
rent.*

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The land of each country varies so greatly in fertility, that every country possesses some barren tracts which are too poor to be cultivated, even if granted rent free. England has soils of every degree of fertility, from the barrenness of her Yorkshire and Devonshire moors, to the rich luxuriance of the Sussex wolds. There will consequently always be some land which may be considered to be on the margin of cultivation. Such land will pay for cultivation if let at a merely nominal rent. Hence Ricardo's theory of rent defines the rent of any particular land to be the pecuniary measure of the degree by which it exceeds in fertility, and advantageous situation, that land which is just upon the margin of cultivation. It is evident that the margin of cultivation descends as the population of the country increases, for it becomes necessary gradually to resort to less fertile land, in order to supply a larger demand for food. But as the margin of cultivation descends, rents must rise, because as less fertile land is brought under tillage, the greater will be the difference between the produce raised from any particular land and the worst land under cultivation, and rent may be regarded as the pecuniary measure of this difference. The worst land, however, which is in cultivation at any particular time will only just bear a nominal rent, and does no more than return the ordinary rate of profit to the farmer for his labour and capital. If, as population increases, it is necessary to bring still worse land into cultivation, it will be manifestly impossible to till this land except at a loss, unless a rise takes place in the price of agricultural produce. We therefore arrive at this conclusion, that the price of agricultural produce must always be such as will enable the ordinary rate of profit to be obtained from the worst land in cultivation, which only pays a merely nominal rent. It can be easily shown, from this proposition, that rent is not an element of the price of agricultural produce, or, in other words, corn and food would not necessarily be,

*Conclusion  
as to the  
price of  
agricul-  
tural pro-  
duce.*

cheaper if every farmer's rent in England were remitted for a term of years. This has always appeared a most startling paradox to those who are unacquainted with political economy.

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CH. III.

Let it be assumed that every farmer has the rent of his farm remitted for the next thirty years: all the land cultivated would then be rent free. The question arises, Would this change produce any effect upon the price of agricultural produce? The quantity of agricultural produce which may be required, in any particular country, is not affected by the amount of rent paid for the use of land. If, therefore, all the land of England were made rent free, there would be no reason to suppose that either more or less agricultural produce would be consumed than when the present rents were charged for land. The same area of land would therefore have to be cultivated; the margin of cultivation would neither ascend nor descend. That land, however, whose fertility is such as to place it just on the margin of cultivation, paid merely a nominal rent, even before the supposed change was introduced which, as we have imagined, has made land rent free. The price of agricultural produce was such as to enable the farmer to realise the ordinary profit of trade upon this land, which is so poor that it only bears a nominal rent; for the land would not, of course, continue to be cultivated, if the price of agricultural produce was not sufficient to enable such profit to be obtained. But even where a general remission of rents has been made, this particular land has still to be cultivated, because there is no reason to suppose that the country will require less agricultural produce than before. Hence the price of agricultural produce cannot decline in consequence of a remission of rents, since, if such a decline in price occurred, the land which was previously cultivated at a nominal rent would cease to return the ordinary rate of profit and would therefore be thrown out of tillage; but the price of agricultural produce prevented taking place, *Proof that rent is not an element in the price of agricultural produce.*

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CH. III.

because the demand for agricultural produce is as great as it was before. Hence it appears that, if all the land of the country was rent free, it would not necessarily follow that the price of agricultural produce would be reduced. It is therefore legitimate to conclude, that the price of agricultural produce is not affected by the payment of rent. The price is really determined by the demand for agricultural produce; because, as the demand increases, it will be necessary to resort to less fertile land. As the population of a country increases, the demand for agricultural produce becomes greater. Hence the price of agricultural produce will rise as the population of a country advances. This rise in price will be counteracted in the two following ways:—

*The price of agricultural produce tends to rise as population increases, but this rise is partly counteracted*

1st. The introduction of agricultural improvements may supply a country with an increased quantity of food, without extending the area of cultivation.

2nd. The increased quantity of food required by a country whose population is advancing may be supplied by foreign importation.

*by importation of corn,*

The effect of the importation of food, either in reducing or keeping down its price, will be fully explained in our remarks on international trade. The last few years must have afforded every one a striking example of the influence produced by the importation of corn. Since the year 1840, an almost unexampled increase in our population has taken place, but so vast have been the importations of grain that the people have been amply supplied with food, without any material rise in its price. The introduction

*and by agricultural improvements.*

of most important agricultural improvements has been no less effectual towards meeting these increased demands for food. Drainage has produced fertility, where before all was useless sterility. Moreover, new agricultural implements, such as the steam plough, may yet be destined so much to economise labour, that land which will not now pay to be cultivated may be made to return a remuneration.

rative profit, without any rise in the price of agricultural produce. In the absence, therefore, of agricultural improvements, it may be said that the price of agricultural produce is determined by the extent to which the demand for it has to be satisfied from the soil of the country itself.

If the importation of food does not keep pace with the increased wants of our advancing population, the price of agricultural produce must inevitably rise.

The price of mining produce is regulated by laws very analogous to those which determine the price of agricultural produce. Mineral deposits vary in richness, in the same manner as land varies in fertility. Some mines are more expensively worked, and less advantageously situated than others, just in the same way as land may be inconveniently situated, because remote from markets. Suppose the price of iron was to decline one half; a great number of the existing iron mines would at once cease to return any profit, and would probably be worked at a very considerable loss. But people will not continue investing their capital if they cannot realise upon it an adequate profit, and therefore such reduction in the price of iron as we have supposed would cause all the least productive mines to be shut up; the supply of this metal would consequently be greatly diminished. If this diminished supply sufficed to satisfy the demand, the reduction might be permanent. But if the demand was in excess of the supply, a rise in the price of iron must follow, because, without such a rise, no adequate inducement could be offered to increase the supply by reopening those mines which a reduction in price had caused to be closed. It therefore appears, that the supply of iron which is forthcoming at any particular time depends upon the price which this metal realises, because the price determines what mines can be worked at a profit. The following adjustment must therefore take place; the demand varies, *cæteris paribus*, inversely with the price, for the greater is the price the less will be the

*The price of mining produce is determined by laws similar to those which determine the price of agricultural produce.*

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demand. On the other hand, however, the supply varies directly with the price, because the greater is the price the greater, of course, will be the supply. If the price is too great, the supply will exceed the demand; if the price is too low, the demand will exceed the supply. The price, therefore, must be such as to adjust the demand to the supply. When the price reaches this point, it is in a position of equilibrium.

*There are constant oscillations of price about the natural price thus determined.*

It is no doubt quite true, that there are constant variations in price, which prevent this position of equilibrium being continuously maintained, but this does not lessen the importance of ascertaining that such a position of equilibrium really exists. The discovery that the planets move in ellipses was justly regarded as a most important scientific truth, and the importance of the discovery was not diminished although it was afterwards proved that the planets are constantly disturbed from their elliptic orbits by a great number of small perturbing forces. The elliptic orbit of a planet may be regarded as a position of stable equilibrium, because, as the planet is disturbed from this position, a force will be generated to restore equilibrium, and the intensity of this force, if the disturbing cause continues, will so constantly increase, that in the end it must prove effectual. In a similar manner a position of stable equilibrium is defined, when the price of iron is such as to equalise the supply to the demand; the price does constantly oscillate about this position, but these oscillations cannot exceed certain limits, because an agency is generated, as in the case of the planetary elliptic orbits, to restore the price to its position of equilibrium. The price so determined has, by Adam Smith and others, been termed the natural price.

## CHAPTER IV.

## ON THE PRICE OF MANUFACTURED COMMODITIES.

IN this chapter we intend to discuss the price of those articles which we have placed in the last of our three divisions, because they are distinguished by the characteristic that their supply can be increased without involving any increase in the expense of their production. We give to such commodities the name of manufactured articles; because the name suggests the leading points of difference between these commodities and those whose price we have been considering in the last chapter. To some it may appear that no such distinction really exists; a manufactured article, it might be said, is in one sense either an agricultural or a mineral product. A piece of linen cloth is woven from flax, which is in every sense of the word as much an agricultural product as the wheat from which a loaf of bread is made. Since, therefore, bread and linen cloth are both made from the produce of agriculture, it may appear that the laws which regulate the price of one ought to regulate the price of the other, and that, therefore, those laws of price which were enunciated in the last chapter, with regard to agricultural and mining produce, will equally apply in determining the price of such a commodity as a piece of linen cloth. But there is this distinction: the value of agricultural and mining produce is almost entirely derived from the value of the raw material; whereas the value of the raw material from which a manufactured article is made only forms a very small

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*Commodities of which the supply can be indefinitely increased without increasing the cost of production.*

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*The value of the raw material forms a small part of the value of manufactured goods.*

portion of the entire value of this particular article. The reason of this must be manifest to all. Before a bundle of flax can be woven into a piece of linen cloth, it must pass through many different processes, carried on by many different classes of labourers. Not only must all these labourers be remunerated, but the employers of these labourers have advanced capital and invested money in expensive machinery, and for all this outlay they must receive an adequate compensation. There must, therefore, be such a difference in the price of the flax in its raw state, and the price of the linen cloth into which it is woven, as will serve to give both to the employers and their labourers all this remuneration which we have just pointed out. The value, therefore, of the raw material forms only a very small portion of the whole value of the particular article into which it is manufactured. It is this circumstance which causes the price of manufactured commodities, and the price of raw produce, to be regulated by very different laws.

*The price of manufactures need not increase with an increased demand,*

Unless a fresh discovery were made, or unless improved machinery and improved methods of production are introduced, it is impossible, as we have already so frequently remarked, to increase the supply of mining produce without resorting to less productive sources, or to increase the supply of agricultural produce without resorting either to less fertile land or to more expensive culture. Such produce therefore, in the absence of counteracting circumstances, must rise in price as it becomes necessary to increase the supply, in order to meet a larger demand. But the same law does not apply in the case of a manufactured article. If it were known that the quantity of linen cloth required to be manufactured in this country would increase twenty per cent. in the next two years, manufacturers of linen would have to increase their purchases of raw flax by twenty per cent. This increased demand for flax would cause its price to rise in obedience



to the laws we have demonstrated in the last chapter, and this rise in the price of flax would, of course, be as it were shown in the price of linen; because the manufacturers of the linen must be compensated for the higher price which is paid for the raw flax. But since the value of the flax forms only a very small portion of the whole value of the cloth into which it is woven, it follows that the rise in the price of the cloth due to the rise in the price of flax will be, comparatively speaking, small. Thus we are informed that a rise of twenty per cent. in the price of flax would not cause the price of linen cloth to rise as much as five per cent. The causes, therefore, which affect the price of raw produce also influence the price of manufactured commodities, but only to an extremely limited extent. If we omit the very trifling rise in price, in a manufactured commodity, which results from an increased demand for the raw material, there is no reason whatever why the price of manufactured commodities should in any way be affected by an increased demand for them. An increased demand for linen cloth to the extent of twenty per cent. need not necessarily influence any of the elements of which the cost of production of this cloth is composed, with the exception of the price of the raw material. Machinery need not be more expensive, the wages of labour need not necessarily rise; and it is even quite possible to suppose that the production of an article may be cheapened as its supply is increased, because when commodities are manufactured on a large scale many of the processes of the manufacture can often be economised. For instance, division of labour makes labour cheaper and more efficient; machinery on a large scale almost invariably works at less comparative cost than machinery on a smaller scale. A steam engine which would exert the same propelling force as two smaller engines will originally cost less than the two, will consume a smaller quantity of fuel, and will not require the same amount of labour to superintend it. It is therefore quite

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*The cost of  
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*Illustration  
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ciple from  
boat-build-  
ing ma-  
chinery.*

possible that an increased demand for a manufactured article may diminish its price. To illustrate this, we may quote the following example. An American, Mr. Nathan Thompson, has recently invented a most ingenious machine for sawing and cutting, in their proper form, the planks of which light boats are made. It has been calculated, and no doubt very correctly, that so much labour and time would be saved by this machine that the cost of a boat would be reduced at least thirty per cent. People therefore confidently predicted that the machine would be introduced, and that boats would inevitably decline thirty per cent. in price; but this is too hasty a conclusion. It must be remembered, that so great is the rapidity with which this machine works, that a very few of these machines would soon turn out a great many more planks than are required in the construction of all the boats which are built in a year. The demand, therefore, for boats would not be sufficient to keep these machines fully at work. This would involve considerable loss. In the first place, a machine, when not at work, must be regarded as capital lying idle, and secondly, the men who attend it would be employed irregularly. Such labour is always expensive, because a man has to receive some remuneration for the time when he is not at work. These machines, therefore, can only exert part of their effect, in reducing the price of boats, as long as the demand for boats is not sufficient to keep them actively at work. It is not improbable that this invention will for some time effect no sensible reduction in the price of boats, because, in so limited a trade, people may hesitate to introduce expensive machines, and therefore boats may continue to be made according to the old plan, in spite of the demonstrated excellence of Mr. Thompson's invention. But if a very great number more boats were required to be made, no doubt these machines would be generally introduced, and nothing could then prevent a reduction in the price of boats proportionate to

the decrease which these machines effected in the cost of making these boats.

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It frequently happens that the wages of the labourers employed in the manufacture of a particular commodity advance as the demand for the commodity increases. If this occurs, these particular manufactured goods will rise in price, in order that the employer may be compensated for the higher wages he is now obliged to pay. Suppose that, at a time when the activity of the cotton manufacture affords constant employment to all those accustomed to the trade, a new market for our cotton goods is suddenly opened. In order to satisfy this new demand the cotton manufacture must be extended; new hands will have to be imported into the trade, and such untrained labour must for a time be, comparatively speaking, inefficient, and therefore more expensive than the labour of those who are accustomed to the trade. The period just preceding the American difficulties affords an example of that which we are describing. So rapidly was the cotton manufacture extended in consequence of the large exports of cotton goods to the East, that the supply of labour in the district proved to be quite inadequate. The manufacturers, therefore, sent agents throughout the country in search of labourers, and in one agricultural village in the Eastern Counties no less than a hundred labourers—including men, women, and children—were engaged for the purpose of being employed in some of the Lancashire mills. To these persons high wages were of course offered, in order to induce them to leave their own locality. But such labourers could not be worth so much as those who by practice had acquired skill in that trade. The regular Lancashire operatives, therefore, obtained a very important rise of wages, and it is impossible for such a rise of wages to occur without increasing the cost of producing cotton goods. The question, therefore, now arises, who would bear this increased cost? Would it come

*A rise in the wages of labourers must be compensated by a rise in the price of the products of their labour.*

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*Proof of  
this propo-  
sition.*

*The average  
rate of  
profit in  
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is deter-  
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the migra-  
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capital.*

entirely out of the manufacturer's pocket, or would it be borne by the purchaser of cotton goods? The answer to this question will be found to involve an explanation of the principles by which the price of manufactured commodities is determined. We shall, in the first place, prove that the manufacturer will be compensated for the rise of wages by a rise in the prices received by him from the purchase of cotton goods. When discussing the subject of profits, we observed that the profits of each particular trade approximate to a certain average. The constancy of this average is maintained by the competition of capital. We do not mean to say that the profits of the butcher approximate to the profits of the cotton manufacturer, for there are causes which must create a permanent difference between the profits of these two trades; the one trade is, and must ever be, more disagreeable than the other; in fact, the whole circumstances of the two trades are entirely different. But although the average profits realised in different trades may greatly and permanently differ, yet there is a certain rate of profit which may be considered to belong to each particular trade. Such a rate of profit indicates a point of equilibrium about which the average profits of the trade may be considered to oscillate. Sometimes they may come short of this point, sometimes they may go beyond it, but the competition of capital is an agency which is ever at work to restore the average rate of profit to this position of equilibrium, whenever disturbed from it. It is impossible precisely to tell what will be the average rate of profit realised in a particular business. Let us suppose that, in the cotton trade, it is ten per cent. upon the whole capital invested. There is always in this country a vast amount of capital ready to be exchanged from one investment to another, if the slightest additional profit can be realised. Such a rapid transfer may be regarded as a proof that the competition of capital is active. Having, therefore, assumed that the average rate of profit in the

cotton trade is ten per cent., let us attempt to trace what will occur if the profits realised in this trade are, by some disturbing cause, reduced below ten per cent.; this being the natural rate of profit as determined by the competition of capital.

The rise in the wages of the cotton operatives which, as we have above remarked, was caused by the increased demand for cotton goods for the East, was quite sufficient to have reduced the profits of the cotton manufacturers from ten to seven per cent. But if not more than seven per cent. was realised, the cotton manufacturer would be placed in an exceptionally unfavourable position, for we have supposed that his business, after making allowance for all the various circumstances connected with it, will be less remunerative than other branches of industry, unless a profit of ten per cent. can be secured. Cotton manufacturers, therefore, would show an anxiety to contract, rather than to extend their operations, for they would be naturally desirous to withdraw as much capital as possible from their own comparatively unremunerative business, and place it in other more lucrative investments. The manufacture of cotton goods would consequently be diminished just at the time when it ought to be extended, in order to meet the increased demand. But it is easy to show that such a contingency could not actually occur. An increased demand for cotton goods means an increased desire to possess them, accompanied with the requisite means to purchase them. Those individuals who want cotton goods will much prefer to pay a somewhat higher price for them rather than go without them altogether. Such a higher price, therefore, will be offered for cotton goods as will compensate the manufacturer for the increased wages which he may be compelled to pay to his operatives. But the demand for a commodity is always diminished if its price is increased. The demand for cotton goods will not be so great as it would have been but for the rise in the

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CH. IV.

*If wages were increased without an increase of price, profits must fall in the trade affected.*

*Hence the price is certain to rise.*

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*The price of manufactures is therefore determined by two principles, one determining the average price, the other, the oscillations about it.*

price of these goods necessary to compensate the manufacturer for the augmented cost of production resulting from a rise in the wages of labour. Hence it would appear that the price of manufactured commodities is regulated by two principles. The first of these principles determines the average price of a commodity; that price which we have before described as a position of equilibrium from which there may be frequent temporary variations. The second principle accounts for these variations, and indicates the laws by which they are regulated. We may perhaps better explain our meaning by referring to an illustration which we have already noticed. The orbit of every planet is mainly determined by the attraction of the sun; and its orbit, so far as it depends on this attraction, is accurately an ellipse. But each planet is acted upon by an almost infinite number of small disturbing forces, which cause it constantly to deviate from an accurate elliptic orbit. Although a planet, therefore, never continues even for a short period to move in an ellipse, yet for many purposes it is sufficiently accurate to consider that the ellipse is its real orbit. Other phenomena however, most important to be considered, depend entirely upon those small disturbing forces which produce the variations in a planet's elliptic orbit. Hence astronomy requires not only that the main cause of a planet's motion should be explained, but also that the laws of the disturbing forces which act upon it should be enunciated with equal care and precision. We will now show the analogy which we have been indicating, by stating the two principles which regulate the price of a manufactured commodity.

*Statement of these principles.*

1st. The price of each manufactured commodity must, on the average, approximate to its cost of production. We include, in the term cost of production, not simply the cost of material, and the wages of labour, but also the ordinary profit upon the capital employed in producing the particular commodity.

2nd. The demand for a commodity varies with its price, and the price at any particular time must be such as to equalise the demand to the supply. BOOK III.  
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With regard to these two principles we may remark, that the first of the two controls prices in the following manner. The price of any manufactured commodity cannot either be very much in excess, or fall short of its cost of production. If the price were greatly in excess, the producer would secure very much more than the ordinary rate of profit; and on the other hand, if the price of a commodity were much less than the cost of its production, the profits of those who produce the commodity will fall materially below the ordinary rate. But as we have before said, the competition of capital must prevent the profits of any particular trade continuing, for a length of time, either above or below the ordinary rate of profit. With regard therefore to the price of a commodity, its cost of production may be regarded as a position of stable equilibrium, and whenever disturbed from this position, the competition of capital is at once brought into action, to restore equilibrium. Just in the same way the elliptic orbit of a planet may be regarded as a position of stable equilibrium: the planet is constantly disturbed from this position, but the attraction of the sun is at once brought into operation to restore its equilibrium.

Although the competition of capital makes the profits of each trade tend towards a certain average rate, and in this manner also makes the price of each commodity approximate towards its cost of production, yet it is a matter of ordinary observation, that there are temporary fluctuations in the prices of all commodities which correspond to the temporary variations in the profits which are realised in any particular trade. Such temporary fluctuations in the price of a commodity, and in the profits of any particular trade, are produced by variations in the demand and supply. Many striking instances of these variations

BOOK III. in price, consequent on a sudden variation in the demand  
 CH. IV. for a commodity, are afforded by the circumstances of the

*Illustration  
 of the  
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present American civil war. Let us take the case of the Birmingham gun trade, which has been thrown into a state of sudden activity by the American war; for there can be no doubt that vast quantities of rifles have been purchased in Birmingham for the Confederate, as well as for the Federal army. Before the demand for rifles was thus suddenly stimulated, the manufacturers of rifles obtained just such prices as would enable the ordinary profits of trade to be realised, because when any trade is in a steady condition, which may be regarded as its normal state, the competition of capital preserves a certain ordinary rate of profit in every trade. If, however, an unusually large number of rifles are suddenly required, their price may for a time rise almost indefinitely above their cost of production; in fact, the cost of production temporarily ceases to be the controlling force in regulating the price. These high prices will, of course, stimulate the manufacturers to the utmost activity, and the greatest possible number of rifles will be produced which can be manufactured by the available resources of the trade. But it takes some time to increase the supply beyond a certain point; the workmen who are accustomed to the trade are limited in number, and new workmen cannot acquire the requisite skill without a long and tedious training; therefore the supply, of even a manufactured commodity, cannot be temporarily increased beyond a certain point, and hence a very great and very sudden demand for a particular commodity may cause it temporarily to assume the same character as those commodities whose price we have previously discussed\*, and whose supply is absolutely limited in amount.

The price of such commodities, we have shown, must be so adjusted as to make the supply equal to the demand.

\* See Book II. Chap. II.



Hence we see the application of the second principle, that temporary variations in the price of a commodity, caused by a sudden alteration in the demand, are regulated by the same laws as those which control the price of commodities whose supply is absolutely limited; the price, in fact, must be such as to equalise the demand to the supply. We say that this principle only temporarily regulates the price of manufactured commodities, because as long as the price of an article is in excess of its cost of production, large profits are realised by those who produce it, and thus a powerful inducement is constantly held out to increase the supply. But as the supply is increased, the price will have a constant tendency to decline, until at length the price approximates to the cost of production of the commodity, and the trade is again restored to its normal condition.

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*Hence the second principle is the same as that which regulates the price of commodities whose supply is absolutely limited.*

In order to prevent a possible misapprehension, it may be important to observe, before concluding this chapter, that the price of a commodity must be always such as to equalise the demand to the supply. This principle is equally true, both when the price is disturbed by sudden fluctuations in the demand and supply, and when the trade is in its normal condition, and the price of the commodity consequently approximates to its cost of production. For let us revert to the example just investigated, and assume that a rifle which is ordinarily sold at 5*l.* becomes worth 10*l.*, owing to a suddenly increased demand for rifles. We have before remarked, that, when the demand for a commodity is suddenly increased, its price may temporarily cease to be in any way controlled by its cost of production. The immediate available supply is limited; and it is therefore evident, that the increased demand cannot be immediately satisfied. The demand of those will therefore be first met who are willing to pay the highest price; but, as the price of the commodity rises, the demand for it diminishes. Hence the price must continue to rise, until

*The principle of the equalisation of supply and demand applies in all cases.*

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at length the demand is so much decreased that it can be satisfied with the immediately available supply, or, in other words, the demand becomes equal to the supply.

*Explanation of the process by which supply and demand are equalised when the price approximates to the cost of production.*

It now only remains to describe the process which equalises the supply to the demand, when a commodity is selling at its cost of production; or, in other words, when a trade is not disturbed from its ordinary steady condition. Reverting to our previous example, let it be assumed that the cost of producing a rifle is 5*l.* The manufacturer of rifles will therefore be adequately remunerated, and will obtain the ordinary profit realised in the trade, if he is able to sell his rifles at 5*l.* each. But, as has been so often said, the demand for any commodity varies, *cæteris paribus*, with its price. Hence it is quite possible that, when rifles are sold for 5*l.*, the demand for them may be either greater or less than the supply. If the first case should arise, and the demand should exceed the supply, then the price of rifles would soon advance beyond 5*l.*, and the manufacturers of rifles would consequently obtain an exceptionally high rate of profit. If, on the other hand, the demand for rifles at 5*l.* each should be less than the supply, the price would become less than 5*l.*, and the manufacturers of rifles would apparently continue their business at a comparative loss. But no branch of industry can continue to be in the state implied by either of the two contingencies just alluded to; the competition of capital will, on the one hand, prevent manufacturers of rifles permanently obtaining an exceptionally high rate of profit; and, on the other hand, manufacturers will refuse permanently to continue their business, if a greater return could be secured by employing their capital in some other investment. Let us, therefore, consider what would really take place under the circumstances supposed.

*Case when the demand is brought to exceed the supply.*

The case that we are investigating assumes that there are no sudden fluctuations, either in the demand or supply, but that everything connected with the trade is in a steady

condition. Now the cost of producing a commodity is composed of two elements; namely, profits upon capital, and wages; and it is therefore evident, that if either of these elements is increased, the cost price of the commodity will also be increased. Thus, when certain wages are paid, the cost price of a rifle may be 5*l.*, but if these wages have to be increased, the cost price of a rifle may advance from 5*l.* to 6*l.* The assumption has been made, that if rifles are sold at 5*l.*, the demand will exceed the supply. Suppose that the price is slightly advanced beyond 5*l.*; the profits of the trade will thus be increased, an additional amount of capital will be brought into the trade, and the number of rifles made will be considerably augmented. All manufactured commodities, however, need skilled labour, and the requisite skill cannot be acquired without considerable training. Hence, when a trade has to be extended, comparatively untrained labourers must be employed. The skilled labourers already engaged in the trade will consequently be eagerly competed for, and their wages will rise. If, however, their wages should rise, the cost of manufacturing the commodity will increase, but a rise in the price of a commodity exerts an influence to diminish the demand; these causes will continue to operate, until at length the supply is made equal to the demand.

We can in a similar way explain the process of equalising the supply to the demand, when the demand for a commodity selling at its cost price is less than the supply. Suppose this case to arise with regard to rifles, and let it be assumed that the cost price of a rifle is 5*l.*, and that at this price there will not be so many rifles purchased as are manufactured; the price of rifles must therefore decline; and it would seem that, if they were permanently sold at 4*l.* 10*s.*, the manufacturers of rifles would lose by their trade, because they only realise the ordinary rate of profit even when 5*l.* could be obtained for a rifle. It must how-

*Case when  
the demand  
is less than  
the supply.*

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ever be borne in mind, that some of those engaged in a trade often possess special opportunities for carrying it on profitably; their place of business may perhaps be in an exceedingly favourable situation, or they may themselves have a special aptitude for the business in which they are engaged. Again, as we have remarked in a previous chapter, those who possess sufficient capital to carry on production upon a large scale often obtain an exceptionally high rate of profit. When, therefore, the supply of a commodity exceeds the demand, two causes will exert an influence to equalise the demand to the supply. In the first place, if the supply of the commodity is diminished, its cost price will also be diminished, because if less of the commodity has to be produced, only the most skilful workmen in the trade need be employed, and those only need continue the manufacture of the commodity who possess special advantages for producing it most cheaply. In the second place, as the price of the commodity is reduced, the demand for it will increase. These two circumstances, acting conjointly, must at length equalise the supply to the demand.

*In both cases an equalising force is exerted.*

We have therefore shown that, in all cases, there is a tendency in constant action to make the supply of a commodity equal to the demand. This principle is equally true, whether the price of a commodity is simply regulated by its cost of production, or whether the price temporarily ceases to be regulated by the cost of production, in consequence of sudden fluctuations, either in the supply or in the demand.

## CHAPTER V.

## ON MONEY.

THE last three chapters have been devoted to an investigation of the laws which regulate the price of various commodities. We are aware that we have somewhat departed from the course usually followed by political economists, who in the first place treat of the value of commodities, and defer any discussion of the laws of price until the functions of money have been fully explained. In pursuing this course, they perhaps adopt a logical method, because money, as a medium of exchange, must necessarily be involved in the meaning of the term price. We prefer the course adopted in the last three chapters, because the investigation of a subject which must always be complicated is rendered more difficult by speaking of the value of a commodity instead of its price; the public almost invariably speak of the price of a commodity, and seldom consider its value by directly estimating the quantity of every other commodity for which it will exchange; moreover, the last three chapters, although relating to price, have not required anything to be assumed; with regard to the laws of money, which was not quite self-evident.

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*Reasons for considering questions of price before discussing the functions of money.*

It has been already remarked, that price is a particular case of value. Every country, as it emerges from barbarism into the first stages of civilisation, has found it absolutely necessary to select some substance as a medium of exchange, for without such a medium every trading

*Use of money.*

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CH. IV.

*Proof of  
this propo-  
sition.*

*The average  
rate of  
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each trade  
is deter-  
mined by  
the migra-  
tion of  
capital.*

entirely out of the manufacturer's pocket, or would it be borne by the purchaser of cotton goods? The answer to this question will be found to involve an explanation of the principles by which the price of manufactured commodities is determined. We shall, in the first place, prove that the manufacturer will be compensated for the rise of wages by a rise in the prices received by him from the purchase of cotton goods. When discussing the subject of profits, we observed that the profits of each particular trade approximate to a certain average. The constancy of this average is maintained by the competition of capital. We do not mean to say that the profits of the butcher approximate to the profits of the cotton manufacturer, for there are causes which must create a permanent difference between the profits of these two trades; the one trade is, and must ever be, more disagreeable than the other; in fact, the whole circumstances of the two trades are entirely different. But although the average profits realised in different trades may greatly and permanently differ, yet there is a certain rate of profit which may be considered to belong to each particular trade. Such a rate of profit indicates a point of equilibrium about which the average profits of the trade may be considered to oscillate. Sometimes they may come short of this point, sometimes they may go beyond it, but the competition of capital is an agency which is ever at work to restore the average rate of profit to this position of equilibrium, whenever disturbed from it. It is impossible precisely to tell what will be the average rate of profit realised in a particular business. Let us suppose that, in the cotton trade, it is ten per cent. upon the whole capital invested. There is always in this country a vast amount of capital ready to be exchanged from one investment to another, if the slightest additional profit can be realised. Such a rapid transfer may be regarded as a proof that the competition of capital is active. Having, therefore, assumed that the average rate of profit in the

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The rise in the wages of the cotton operatives which, as we have above remarked, was caused by the increased demand for cotton goods for the East, was quite sufficient to have reduced the profits of the cotton manufacturers from ten to seven per cent. But if not more than seven per cent. was realised, the cotton manufacturer would be placed in an exceptionally unfavourable position, for we have supposed that his business, after making allowance for all the various circumstances connected with it, will be less remunerative than other branches of industry, unless a profit of ten per cent. can be secured. Cotton manufacturers, therefore, would show an anxiety to contract, rather than to extend their operations, for they would be naturally desirous to withdraw as much capital as possible from their own comparatively unremunerative business, and place it in other more lucrative investments. The manufacture of cotton goods would consequently be diminished just at the time when it ought to be extended, in order to meet the increased demand. But it is easy to show that such a contingency could not actually occur. An increased demand for cotton goods means an increased desire to possess them, accompanied with the requisite means to purchase them. Those individuals who want cotton goods will much prefer to pay a somewhat higher price for them rather than go without them altogether. Such a higher price, therefore, will be offered for cotton goods as will compensate the manufacturer for the increased wages which he may be compelled to pay to his operatives. But the demand for a commodity is always diminished if its price is increased. The demand for cotton goods will not be so great as it would have been but for the rise in the

BOOK III.  
CH. IV.

*If wages were increased without an increase of price, profits must fall in the trade affected.*

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*The price of manufactures is therefore determined by two principles, one determining the average price, the other, the oscillations about it.*

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With regard to these two principles we may remark, that the first of the two controls prices in the following manner. The price of any manufactured commodity cannot either be very much in excess, or fall short of its cost of production. If the price were greatly in excess, the producer would secure very much more than the ordinary rate of profit; and on the other hand, if the price of a commodity were much less than the cost of its production, the profits of those who produce the commodity will fall materially below the ordinary rate. But as we have before said, the competition of capital must prevent the profits of any particular trade continuing, for a length of time, either above or below the ordinary rate of profit. With regard therefore to the price of a commodity, its cost of production may be regarded as a position of stable equilibrium, and whenever disturbed from this position, the competition of capital is at once brought into action, to restore equilibrium. Just in the same way the elliptic orbit of a planet may be regarded as a position of stable equilibrium: the planet is constantly disturbed from this position, but the attraction of the sun is at once brought into operation to restore its equilibrium.

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*The average price approximates to the cost of production.*

*The oscillations are determined by variations in the supply and demand.*

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*The value of the raw material forms a small part of the value of manufactured goods.*

portion of the entire value of this particular article. The reason of this must be manifest to all. Before a bundle of flax can be woven into a piece of linen cloth, it must pass through many different processes, carried on by many different classes of labourers. Not only must all these labourers be remunerated, but the employers of these labourers have advanced capital and invested money in expensive machinery, and for all this outlay they must receive an adequate compensation. There must, therefore, be such a difference in the price of the flax in its raw state, and the price of the linen cloth into which it is woven, as will serve to give both to the employers and their labourers all this remuneration which we have just pointed out. The value, therefore, of the raw material forms only a very small portion of the whole value of the particular article into which it is manufactured. It is this circumstance which causes the price of manufactured commodities, and the price of raw produce, to be regulated by very different laws.

*The price of manufactures need not increase with an increased demand,*

Unless a fresh discovery were made, or unless improved machinery and improved methods of production are introduced, it is impossible, as we have already so frequently remarked, to increase the supply of mining produce without resorting to less productive sources, or to increase the supply of agricultural produce without resorting either to less fertile land or to more expensive culture. Such produce therefore, in the absence of counteracting circumstances, must rise in price as it becomes necessary to increase the supply, in order to meet a larger demand. But the same law does not apply in the case of a manufactured article. If it were known that the quantity of linen cloth required to be manufactured in this country would increase twenty per cent. in the next two years, manufacturers of linen would have to increase their purchases of raw flax by twenty per cent. This increased demand for flax would cause its price to rise in obedience

to the laws we have demonstrated in the last chapter, and this rise in the price of flax would, of course, be as it were shown in the price of linen; because the manufacturers of the linen must be compensated for the higher price which is paid for the raw flax. But since the value of the flax forms only a very small portion of the whole value of the cloth into which it is woven, it follows that the rise in the price of the cloth due to the rise in the price of flax will be, comparatively speaking, small. Thus we are informed that a rise of twenty per cent. in the price of flax would not cause the price of linen cloth to rise as much as five per cent. The causes, therefore, which affect the price of raw produce also influence the price of manufactured commodities, but only to an extremely limited extent. If we omit the very trifling rise in price, in a manufactured commodity, which results from an increased demand for the raw material, there is no reason whatever why the price of manufactured commodities should in any way be affected by an increased demand for them. An increased demand for linen cloth to the extent of twenty per cent. need not necessarily influence any of the elements of which the cost of production of this cloth is composed, with the exception of the price of the raw material. Machinery need not be more expensive, the wages of labour need not necessarily rise; and it is even quite possible to suppose that the production of an article may be cheapened as its supply is increased, because when commodities are manufactured on a large scale many of the processes of the manufacture can often be economised. For instance, division of labour makes labour cheaper and more efficient; machinery on a large scale almost invariably works at less comparative cost than machinery on a smaller scale. A steam engine which would exert the same propelling force as two smaller engines will originally cost less than the two, will consume a smaller quantity of fuel, and will not require the same amount of labour to superintend it. It is therefore quite

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*as only one  
of the ele-  
ments of  
their value  
is affected.*

*The cost of  
production  
of manu-  
factures  
may dimi-  
nish as the  
supply is  
increased.*

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*Illustration  
of this prin-  
ciple from  
boat-build-  
ing ma-  
chinery.*

possible that an increased demand for a manufactured article may diminish its price. To illustrate this, we may quote the following example. An American, Mr. Nathan Thompson, has recently invented a most ingenious machine for sawing and cutting, in their proper form, the planks of which light boats are made. It has been calculated, and no doubt very correctly, that so much labour and time would be saved by this machine that the cost of a boat would be reduced at least thirty per cent. People therefore confidently predicted that the machine would be introduced, and that boats would inevitably decline thirty per cent. in price; but this is too hasty a conclusion. It must be remembered, that so great is the rapidity with which this machine works, that a very few of these machines would soon turn out a great many more planks than are required in the construction of all the boats which are built in a year. The demand, therefore, for boats would not be sufficient to keep these machines fully at work. This would involve considerable loss. In the first place, a machine, when not at work, must be regarded as capital lying idle, and secondly, the men who attend it would be employed irregularly. Such labour is always expensive, because a man has to receive some remuneration for the time when he is not at work. These machines, therefore, can only exert part of their effect, in reducing the price of boats, as long as the demand for boats is not sufficient to keep them actively at work. It is not improbable that this invention will for some time effect no sensible reduction in the price of boats, because, in so limited a trade, people may hesitate to introduce expensive machines, and therefore boats may continue to be made according to the old plan, in spite of the demonstrated excellence of Mr. Thompson's invention. But if a very great number more boats were required to be made, no doubt these machines would be generally introduced, and nothing could then prevent a reduction in the price of boats proportionate to

the decrease which these machines effected in the cost of making these boats.

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It frequently happens that the wages of the labourers employed in the manufacture of a particular commodity advance as the demand for the commodity increases. If this occurs, these particular manufactured goods will rise in price, in order that the employer may be compensated for the higher wages he is now obliged to pay. Suppose that, at a time when the activity of the cotton manufacture affords constant employment to all those accustomed to the trade, a new market for our cotton goods is suddenly opened. In order to satisfy this new demand the cotton manufacture must be extended; new hands will have to be imported into the trade, and such untrained labour must for a time be, comparatively speaking, inefficient, and therefore more expensive than the labour of those who are accustomed to the trade. The period just preceding the American difficulties affords an example of that which we are describing. So rapidly was the cotton manufacture extended in consequence of the large exports of cotton goods to the East, that the supply of labour in the district proved to be quite inadequate. The manufacturers, therefore, sent agents throughout the country in search of labourers, and in one agricultural village in the Eastern Counties no less than a hundred labourers—including men, women, and children—were engaged for the purpose of being employed in some of the Lancashire mills. To these persons high wages were of course offered, in order to induce them to leave their own locality. But such labourers could not be worth so much as those who by practice had acquired skill in that trade. The regular Lancashire operatives, therefore, obtained a very important rise of wages, and it is impossible for such a rise of wages to occur without increasing the cost of producing cotton goods. The question, therefore, now arises, who would bear this increased cost? Would it come

*A rise in the wages of labourers must be compensated by a rise in the price of the products of their labour.*

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*Proof of  
this propo-  
sition.*

*The average  
rate of  
profit in  
each trade  
is deter-  
mined by  
the migra-  
tion of  
capital.*

entirely out of the manufacturer's pocket, or would it be borne by the purchaser of cotton goods? The answer to this question will be found to involve an explanation of the principles by which the price of manufactured commodities is determined. We shall, in the first place, prove that the manufacturer will be compensated for the rise of wages by a rise in the prices received by him from the purchase of cotton goods. When discussing the subject of profits, we observed that the profits of each particular trade approximate to a certain average. The constancy of this average is maintained by the competition of capital. We do not mean to say that the profits of the butcher approximate to the profits of the cotton manufacturer, for there are causes which must create a permanent difference between the profits of these two trades; the one trade is, and must ever be, more disagreeable than the other; in fact, the whole circumstances of the two trades are entirely different. But although the average profits realised in different trades may greatly and permanently differ, yet there is a certain rate of profit which may be considered to belong to each particular trade. Such a rate of profit indicates a point of equilibrium about which the average profits of the trade may be considered to oscillate. Sometimes they may come short of this point, sometimes they may go beyond it, but the competition of capital is an agency which is ever at work to restore the average rate of profit to this position of equilibrium, whenever disturbed from it. It is impossible precisely to tell what will be the average rate of profit realised in a particular business. Let us suppose that, in the cotton trade, it is ten per cent. upon the whole capital invested. There is always in this country a vast amount of capital ready to be exchanged from one investment to another, if the slightest additional profit can be realised. Such a rapid transfer may be regarded as a proof that the competition of capital is active. Having, therefore, assumed that the average rate of profit in the

cotton trade is ten per cent., let us attempt to trace what will occur if the profits realised in this trade are, by some disturbing cause, reduced below ten per cent.; this being the natural rate of profit as determined by the competition of capital.

The rise in the wages of the cotton operatives which, as we have above remarked, was caused by the increased demand for cotton goods for the East, was quite sufficient to have reduced the profits of the cotton manufacturers from ten to seven per cent. But if not more than seven per cent. was realised, the cotton manufacturer would be placed in an exceptionally unfavourable position, for we have supposed that his business, after making allowance for all the various circumstances connected with it, will be less remunerative than other branches of industry, unless a profit of ten per cent. can be secured. Cotton manufacturers, therefore, would show an anxiety to contract, rather than to extend their operations, for they would be naturally desirous to withdraw as much capital as possible from their own comparatively unremunerative business, and place it in other more lucrative investments. The manufacture of cotton goods would consequently be diminished just at the time when it ought to be extended, in order to meet the increased demand. But it is easy to show that such a contingency could not actually occur. An increased demand for cotton goods means an increased desire to possess them, accompanied with the requisite means to purchase them. Those individuals who want cotton goods will much prefer to pay a somewhat higher price for them rather than go without them altogether. Such a higher price, therefore, will be offered for cotton goods as will compensate the manufacturer for the increased wages which he may be compelled to pay to his operatives. But the demand for a commodity is always diminished if its price is increased. The demand for cotton goods will not be so great as it would have been but for the rise in the

*If wages were increased without an increase of price, profits must fall in the trade affected.*

*Hence the price is certain to rise.*

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standard implies that any person who has a payment to make can use his own discretion as to whether he shall pay the amount in gold or silver. If, therefore, the case we have just supposed should arise, and the value of silver should be depreciated five per cent., it is manifest that every person who has a debt to discharge would take advantage of this depreciation, and all payments would consequently be made in silver instead of in gold. The result would manifestly be, that the amount to be paid would be reduced five per cent., and the amount to be received would consequently in every case be diminished by a similar amount. It is evident that this unfortunate and most mischievous disturbance in the terms of monetary contracts would be avoided if gold was the only standard of value.

*Regulations which preserve a single standard in England.*

It must not be imagined that England has a double standard, because silver and copper money form a part of our metallic currency. Our silver and copper money must be regarded as subsidiary coins, and we are enabled, by a very simple arrangement, to enjoy all the advantages arising from the employment of such coins, without any of the inconveniences which belong to a double standard. It is fixed by law, in this country, that each silver coin should contain a certain quantity of silver, and it is also further enacted that these coins should exchange for, or, in other words, be equivalent in value to, a fixed quantity of gold. Thus a shilling always contains the same quantity of silver, a sovereign always contains the same quantity of gold, and twenty shillings are made equivalent in value to one sovereign. The silver, however, which is contained in twenty shillings is not really equivalent in value to a sovereign, for if the shillings were melted down, the silver which they contain would not purchase so large a quantity of gold as is contained in a sovereign. The Mint, therefore, obtains a profit on the silver which it coins; in fact, our silver coinage may be regarded as a slightly depreciated currency. The Mint, however, is not permitted to issue



more than a certain amount of silver coinage, and the reason why a silver coinage is, as it were, slightly depreciated, may be readily explained. For suppose that the weight of gold in a sovereign, and the weight of silver in a shilling, had in the first instance been so arranged that the quantity of silver contained in twenty shillings had been exactly equivalent in value to the gold contained in a sovereign. If this plan had been adopted, any subsequent rise in the value of silver compared with gold would have made it profitable to melt silver coin, and sell it as bullion. The silver coinage of the country would thus be constantly liable to be absorbed, for the purpose of being melted down; therefore, one of two things would occur, either the country would soon lose its silver coinage, or the Mint would have to bear a heavy loss; since, if silver rose in value compared with gold, the Mint would manifestly lose upon all the silver they coined, and they might be called upon to coin an unlimited amount, as long as it continued profitable to melt silver coin.

Such a contingency is, however, obviated by the judicious regulations which control our Mint. For since twenty shillings, although they exchange for a sovereign, do not contain an amount of silver equivalent in value to a sovereign, it is manifestly unprofitable to melt down our silver coinage, and sell it as bullion, unless there should be a very considerable rise in the value of silver compared with gold. It is no doubt quite possible that such a rise in the value of silver may take place; but the plan adopted by our Mint prevents any profit being realised by the melting of silver, unless the rise in the value of silver should be very considerable. In the currency of France, and the amount of silver contained in its silver coinage is much more nearly equivalent in value to the gold coinage for which it exchanges, than is the case in our own currency. For instance, the gold coin termed a 'Napoleon' is said to represent twenty 'francs;' and if four 'five-franc' silver

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*Reasons for a slight depreciation of the silver coinage.*

*Regulations of the Mint in England*

*and France.*

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pieces were melted down, the silver which they contain is as nearly as possible equivalent in value to the gold contained in a 'Napoleon.' Within the last ten years, the value of silver has slightly risen, in consequence of the large quantity of silver which has been sent to the East; and the result has been, that this rise in the value of silver has rendered it profitable to melt the silver coinage of France, and sell it as bullion. The consequence of this has been, that almost the entire silver coinage of France has been melted and sold as bullion, whereas the rise in the value of silver has not been yet sufficient to enable a profit to be realised by the conversion of our own silver coinage into bullion.

*Reasons for limiting the amount of a legal tender in silver.*

We have described our own silver coinage to be, as it were, a slightly depreciated currency; it might therefore be supposed, that a person would incur a certain risk of loss, if he were compelled to accept silver instead of gold, in payment of a debt due to him. But in order to obviate such an occurrence, a law has been passed, which enacts that silver shall not be a legal tender for any amount exceeding 40s., and copper coinage is not a legal tender for any amount exceeding 5s. Silver and copper money may, therefore, be regarded as merely subsidiary coins; and we thus obtain all the advantages of having convenient coins to discharge the smallest payments, without any of the disadvantages which belong to a double standard.

## CHAPTER VI.

## ON THE VALUE OF MONEY.

TO the expression 'value of money,' an ambiguity of BOOK III.  
CH. VI. meaning is attached, which it is necessary should be very clearly explained. The value of money has a popular *Distinction between the popular and scientific sense of value of money.* signification, which is quite distinct from its scientific meaning. If we peruse the 'city article' of any daily newspaper, it will be perceived that the value of money is considered to be synonymous with the current rate of interest. Thus the value of money is said to be increasing, when the rate of interest is rising. The Bank of England is the great regulator of the money market, and the rate of discount which is paid for advances made at the bank controls the terms upon which advances are made by other discount houses, and fixes the interest allowed by banking establishments upon money deposited with them. In the language therefore of every-day life, the value of money is considered to be represented by the bank rate of discount; the value of money is thus said to rise, as this rate of discount advances, and to fall, as the rate of discount declines.

It may be gathered, from our general remarks on value *The scientific sense of this expression.* and price, that the expression 'value of money' has another and very different meaning. In political economy, we estimate greatness or smallness of value by the power which a commodity has to obtain other commodities in exchange for it. If a sack of wheat will at the present time exchange for a greater quantity of coal, of meat, and

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of every other commodity than it would exchange for a twelvemonth since, it may be said that the value of wheat has risen. If, on the other hand, the wheat exchanged for a less instead of a greater quantity of coal, meat, &c., the value of wheat would be described as having fallen. In a similar manner, if a certain quantity of gold would at the present time exchange for a greater quantity of coal, of meat, and of every other commodity than it would exchange for a twelvemonth since, we should say that the value of gold had risen; on the other hand, we should affirm that the value of gold had declined, if the gold exchanged for a less, instead of a greater quantity of those articles which we have just enumerated. But when we speak of gold exchanging for a greater quantity of any commodity, we in fact assert that the price of this commodity has fallen; and again, when we say that gold exchanges for a diminished quantity of any commodity, we intend to signify, by this, that the price of the commodity has increased. Suppose that, a twelvemonth since, the gold contained in two sovereigns would exchange for a sack of wheat, and that now this gold exchanges for two sacks of wheat, it is manifest that the value of gold, estimated in wheat, has increased twofold in the course of a twelvemonth, and consequently the price of wheat during this period has diminished in the same ratio; for wheat has, according to our hypothesis, during the time declined in price from 40s. to 20s. a sack. When therefore, in political economy, we speak of the value of the precious metals, or, which is the same thing, the value of money, we mean the purchasing power of money, or, in other words, the power which money has to obtain other commodities in exchange for it. It must therefore be distinctly borne in mind, that although men of business consider the value of money to be represented by the rate of interest, yet the signification which we here attach to the expression 'value of money' is such as to describe the value of money to be

*The value of gold rises as prices fall, and falls as prices rise.*

great when prices are low, and to be small when prices are high.

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A few lines above we have remarked, that the value of money is the same as the value of the precious metals of which this money is composed. This statement may perhaps require some elucidation. Our readers have no doubt frequently observed, that the Mint price of gold is 3*l.* 17*s.* 10½*d.* per oz. This price is fixed by law, and if an individual takes gold in the form of bullion to the Mint, the authorities are compelled by law to purchase it from him, at the price of 3*l.* 17*s.* 10½*d.* per oz. The price of gold therefore, considered as metal, is by act of parliament fixed at an invariable amount. This is not the case with any other metal, for we are all aware that the price of a ton of iron, or of a ton of tin, varies greatly from time to time. We will explain what is really meant by the price of gold being thus permanently fixed by law.

*The price of gold is said to be fixed by law.*

The fixed price which is given to gold by law is not unfrequently the basis of most absurd and erroneous conclusions. We have, for instance, seen persons who profess to be authorities on monetary affairs decide, in the most off-hand manner, that the value of gold has not been affected by the recent gold discoveries, grounding this competent opinion upon the fact that the price of gold has remained unchanged. They say an ounce of gold now realises exactly the same price, namely 3*l.* 17*s.* 10½*d.*, as it realised ten years since. How then, they ask, can the value of gold decline, whilst its price remains unaltered? But this constancy in the price of gold only proves that the quantity of gold in a sovereign remains the same. The Mint authorities give 3*l.* 17*s.* 10½*d.* for an ounce of gold, because they know that there is just sufficient gold in an ounce to manufacture three sovereigns, and that portion of a sovereign which is represented by 17*s.* 10½*d.* Since, therefore, the price of gold remains constant, we may speak of gold and bullion as synonymous

*Erroneous conclusions from this statement.*

*Its real meaning.*

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with the value of gold when converted into coin. The value of gold money, therefore, is regulated by the same laws as those which regulate the value of gold in bullion. In order, therefore, to investigate the value of money, we have simply to apply those principles which we have already enunciated as controlling the value of such commodities as the precious metals. By this method we assimilate the value of money with the value of an ordinary commodity.

*The value of gold is regulated by the ordinary laws of value.*

It is very important to keep most distinctly before the student's mind, that money is composed of substances, the value of which is regulated in the same manner as any other ordinary commodities of trade. The subject of money is rendered confused and difficult, because, in consequence of the phraseology which is often employed, a belief is encouraged that there is something mysterious connected with every economical question relating to money. Our readers will recollect that, in discussing the laws of value and price, we divided commodities into three distinct classes, and these three classes were separated from each other respectively by the following characteristics. In the first class were placed all those articles whose supply was absolutely limited; in the second class, all produce was included the supply of which would, if increased, involve a greater proportionate expenditure of labour and capital; and, in the third and last class, were enumerated all commodities whose supply might be increased without any practical limit.

*Applicable to agricultural and mining produce.*

The commodities belonging to the second class we described, in general terms, as agricultural and mineral produce. The laws of value and price which apply to this class were expounded in Chapter III., Book III. We shall have, therefore, to apply these particular laws, in order to establish the principles which regulate the value of money, because, as we have above remarked, the value of money, and the value of the precious metals of which it is com-

posed, are synonymous expressions. It is hardly necessary to repeat, that the fundamental conclusion established in the chapter just referred to, may be expressed in the following way. If the demand for agricultural or mineral produce renders it necessary so to increase the supply that resort must be had to less productive sources, the price, or, in other words, the value of such produce, will rise, in order to compensate the augmented cost of production. We are quite aware that this law is not brought so distinctly or so immediately into operation, in the case of mineral as in that of agricultural produce, because mining is far more speculative and uncertain than agriculture. This uncertainty is most strikingly apparent in those mines which are worked for the precious metals. Thus the gold-digging of Australia has the character of a lottery. If a man cultivates a plot of ground, he can calculate very approximately the average produce it will yield, and the profit that will be left to him; but an Australian gold-digger cannot know beforehand whether the claim upon which he purchases permission to dig will prove a complete blank, or may contain nuggets sufficient to make him a rich man in a few days. Although it may appear impracticable to apply the principles of political economy to a branch of industry so speculative and so irregular as gold-digging, yet the Australian diggers are of course influenced, in commencing and continuing gold mining, by the average amount of the gains realised. If the gold-fields become more productive, a greater number of diggers would of course be attracted to them, and the same effect would be produced if the gold that was found became more valuable.

Agricultural and mineral produce, consistently with the law above enunciated, become more valuable, or, in other words, rise in price, as it becomes necessary to increase the supply, in order to meet an increased demand. An increased demand for corn and meat is caused by an in-

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*Although the operation of the law is concealed by the uncertainty of mining operations.*

*Causes which may raise the price of agricultural produce.*

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creased consumption of food, and we are all aware of the various circumstances which may affect the demand for such minerals as coal, copper, and iron; the demand for these minerals increases with every extension of commerce or trade. Let us, therefore, enquire, Is there any difference in the nature of the causes which may affect the demand for the precious metals? Gold (and the same remark applies to silver) is devoted to two distinct purposes.

*Do they operate in the case of gold?*

*The two uses of go'd.*

1st. Gold is employed as an ordinary article of commerce.

2nd. Gold is the substance from which a great portion of the money of every country is made. A very large proportion of all the gold that exists in the world is devoted to the last of these two purposes.

*Gold as used for purposes of art*

Gold is, however, employed in a great variety of ways, both in arts and manufactures. But it is difficult even approximately to estimate the quantity which is thus absorbed. From the stamp which is in this country placed upon gold and silver plate, we are enabled to ascertain that the gold plate which is annually manufactured does not in value exceed 40,000*l*. The most competent authorities differ greatly in their calculations with regard to the amount of gold which is used in jewellery, gilding, and in various other ways. Mr. Jacob supposed that, thirty years since, an amount of gold equivalent to 2,000,000*l*. was thus annually absorbed. If his estimate was correct, this amount has probably been now doubled; it is, however, generally believed that Mr. Jacob's estimate is much too high. At any rate, the gold which is required for industrial purposes cannot vary greatly from year to year. Hence, if the supply of gold is suddenly doubled or trebled, as it was twelve years since by the discovery of the rich deposits in Australia and California, it is evident that the large additional supply must be almost entirely converted into gold coinage. It therefore appears, that any increase

*does not greatly vary in amount. Hence the increased produce is chiefly used for money.*



or decrease in the quantity of gold which is used is almost solely determined by the amount of gold which is manufactured into money. We must therefore, in investigating the demand for gold, enquire into the causes which regulate the quantity of money which each country may require. There is little difficulty in explaining the circumstances which regulate the particular demand a country may have for the various commodities it consumes. Thus England needs so many sacks of wheat, because there are a certain number of people to be fed. The quantity of cotton goods which the English annually require for their own use varies with the price at which these goods can be sold; each successive reduction in price gives a greater number the power to purchase them, and consequently the demand increases as the price is reduced. England's gold coinage, at the present time, may be roughly estimated at 45,000,000*l.* sterling; each year, on an average, about 2,000,000*l.* is perhaps added to this coinage; this, therefore, may proximately be regarded as the amount of gold which England annually requires to maintain her metallic currency. But why has England this particular demand for gold coinage? Why should she not keep in circulation twice as much gold coinage? To these questions concerning the demand for gold, we will at once proceed to give a distinct answer, and, in doing so, we shall point out the laws which regulate the distribution of the precious metals over the various countries of the world.

*What determines the amount of money employed.*

It would be better in the first place to suppose, for the sake of simplicity, that England has no other money except a metallic coinage. We will afterwards consider whether the conclusions which are arrived at on this supposition have in any way to be modified, because England possesses paper money, such as bank notes, in addition to her coinage.

*Assumption made for simplicity.*

It will be necessary, before proceeding to elucidate the various principles which we shall establish in this chapter,

*General causes which*

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*determine  
the quantity  
of money in  
circulation.*

to remark upon the general causes that regulate the quantity of money which a nation requires to keep in circulation. It must be almost self-evident to our readers that the amount of money which a nation needs must bear some proportion to its wealth. England annually produces and accumulates a much greater amount of wealth than Ireland. A much larger quantity of commodities will therefore each year be bought and sold for money, in England, than in Ireland, and in order to carry on this exchange, a greater amount of money will be required in the one country than in the other. The population of England also much exceeds that of Ireland. English labourers are certainly as well remunerated as Irish labourers; wages are generally paid in money, and therefore, as far as the payment of wages is concerned, England will require a much greater amount of money than Ireland. But we need scarcely remark further upon this subject, as it must be evident that the amount of money which a nation requires to carry on all its transactions of buying and selling must bear some proportion to its wealth and population. We advisedly use the vague expression '*some proportion,*' in order to warn our readers against the fallacy of supposing that the money which a country keeps in circulation is a measure of its national wealth. The error of such a supposition will be clearly shown, if for one moment we consider the manner in which the trade and commerce of a country is carried on.

*Means by  
which the  
quantity of  
money in  
circulation  
is econom-  
ised by  
manufac-  
turers.*

A vast amount of wealth is daily bought and sold without the transfer of any money; in fact, it is not too much to state, that money is rarely employed in any of those large transactions which constitute wholesale trade. The Leeds manufacturer who purchases wool from the stapler pays for it by a cheque, and not by gold or silver coin; and when he sells the cloth which he has manufactured, he does not receive gold or silver from the purchaser, but he is invariably paid by a cheque, or by a bill of exchange.

The cheques and bills of exchange which he may have thus issued on his own credit are returned to his bank, and the amount of money which they represent is deducted from the aggregate amount of bills and cheques which he may have received from others, and deposited at the same bank; the balance which is left represents so much wealth which the manufacturer keeps with his banker, either for purposes of convenience or for security. It thus appears, that a manufacturer who may produce in the course of a year 100,000*l.* worth of cloth, may never have in his possession a greater amount of money than is sufficient to pay the weekly wages of his labourers, and to make such small daily payments as are usually discharged by ready money.

As another illustration, we may state that the individual whose personal expenditure is 1000*l.* a year, need never have more than a very small amount of money in his possession at any one time. He will discharge all his larger payments by cheques, and he will only require money to pay the wages of his servants, and to meet small current daily expenses, such, for instance, as buying railway tickets, paying cab fares, &c. It is consequently manifest that the money which any individual has in his possession forms a very insignificant part of his aggregate wealth. Although it is therefore impossible to tell, from any *à priori* reasoning, whether the wealth of a country is fifty times or a hundred times as great as the amount of money which is kept in circulation, yet it may nevertheless with certainty be concluded that, as the wealth and population of a country increase, a greater amount of wealth will have to be bought and sold for money. We say that such a conclusion is certain, because although a great amount of wealth is exchanged without the transfer of money from one individual to another, yet money is required, and is always used in certain transactions, and these transactions increase both in number and in amount as the wealth and population of a country increase. Thus labourers receive

*For private persons.*

*Hence, though the absolute amount is uncertain, it increases with the increase of wealth and population.*

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their wages in money. The wage-fund of the country increases with every advance in its population and wealth, but a larger wage-fund implies that a greater amount of money is employed in paying the wages of the labourers. Again, we have remarked, that every individual must use money to discharge some of his smaller payments, and we have also stated, that amongst those smaller payments may be included such transactions as the purchase of railway tickets, the hiring of cabs, the settling of hotel bills, &c. But as the wealth and population of a country increase, a greater amount of money will be spent in railway tickets, cab fares, hotel bills, &c., and, consequently, a greater amount of money will be required for these purposes.

*The amount of money is also affected by the number of commercial transactions.*

In order still further to show the difficulty of assigning any definite proportion between the wealth of a country and the amount of money kept in circulation, it may be mentioned that the amount of money which is required to carry on the trade of a country may partly depend upon the number of times a commodity is bought and sold before it is consumed. To illustrate this, suppose that a sack of flour is bought and sold ten times, to ten different individuals, before it reaches the baker who bakes it, and that each time the flour is paid for in money. It is manifest that this buying and selling will put as much money in circulation, or, in other words, will require the use of as much coin, as if ten sacks of flour had been at once sold by the miller to the baker.

*Two principles at which we have arrived.*

Sufficient has now been said to justify us in affirming that the two following principles regulate the quantity of money which is required to be kept in circulation :

1st. The amount of money required to be kept in circulation depends upon the amount of wealth which is exchanged for money. Hence, *cæteris paribus*, the amount of money in circulation ought to increase as the population and wealth of a country advance.

2nd. The amount of money required to be kept in

circulation also depends upon the number of times commodities are bought and sold for money, before they are consumed.

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The question now arises—Do the causes which we have just described, as regulating the demand for the precious metals, afford any explanation of the agency by which the demand and the supply of the precious metals are made to equalise each other?—the demand never being in excess of the supply, or the supply in excess of the demand.

*Application to the equalisation of demand and supply of gold.*

With regard to any other commodity, there is, as we have shown, no difficulty in explaining this process of equalisation, for the adjustment of the demand to the supply, and *vice versa*, is always effected by a rise or fall in price. An excess in the supply beyond the demand means, that at the price at which any particular article of commerce is offered for sale, there are not sufficient purchasers to take off the whole quantity which is offered. But this apparent superfluity is, after all, a mere question of price, for if the price be lowered, new purchasers will at once come into the market, and there will cease to be an excess in the supply. As soon as the price is sufficiently reduced there will be purchasers for the whole of the commodity which is offered for sale. The demand for a commodity always varies with its cheapness, although the ratio of this variation cannot be numerically defined. It is not only different for different commodities, but it also alters with every change in the economical condition of the country. As an example, Mr. Gladstone has been confident in his belief that a reduction of one hundred per cent. in the price of inferior French clarets will cause these wines to be purchased by classes of society in this country who never before have purchased them, and that therefore the consumption of this wine will increase much more than one hundred per cent. As another example, it is perhaps not too much to say that at the present day even the poorest are generally able to obtain as much

*Method by which this is effected in other cases,*

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bread as they require, and therefore it is not probable that the demand for bread would be doubled, or, in other words, that twice as much bread would be consumed, even if the price of bread were reduced one half. But although we cannot beforehand define the exact point to which the price of any commodity must either rise or fall to adjust the demand to the supply, yet there can be no doubt with regard to the agency by which this adjustment is effected: when the demand exceeds the supply the price will rise, and thus diminish the demand; when, on the other hand, the supply exceeds the demand, the price will fall, and thus increase the demand. But it would be naturally asked, Can the demand and supply of the precious metals be adjusted in the same manner? for it may be said the price of gold is invariable; it is fixed by law at 3*l.* 17*s.* 10½*d.* an ounce, and therefore it would seem contradictory to assert that an adjustment of the demand and supply of gold is effected by a rise or fall in its price. This is a difficulty which must be clearly explained.

*viz. by rise  
and by fall  
of prices.*

*Does this  
apply to  
gold?*

We have frequently stated that the price of any commodity is an expression synonymous with its value estimated in gold, or in any other substance which is selected as money. It is, therefore, an evident contradiction to speak of the demand and supply of gold being adjusted by a rise and fall in its price. The price of gold is, in fact, a meaningless expression, since, according to the signification which we have just attached to the word price, the price of gold means the value of gold estimated in gold, and this is a phrase which can have no meaning. Let, therefore, the expression 'value of gold' be substituted for 'price of gold,' and this substitution will enable us to escape from our apparent difficulty. The value of gold accurately varies in the inverse ratio of the price of commodities. If the price of all commodities rise one hundred per cent., the value of gold must inevitably fall one hundred per cent., for the same quantity of gold will

*We must  
substitute  
value for  
price.*

exchange for or purchase only half as much of each commodity. In the absence, therefore, of any counteracting circumstances, if the price of all commodities rise one hundred per cent., we know that twice as much gold or silver is required each time any commodity is purchased; and there must consequently be twice as much gold and silver in the country circulating in the form of money.

We are therefore able to enunciate the following principle:—The amount of gold actually in circulation varies in the direct ratio of the price of commodities. If the price of all commodities rise, each purchase requires an increased amount of money. Hence more money is kept in circulation, or, in other words, the quantity of metal employed is increased.

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*Demand for gold varies directly with prices.*

We will now attempt to give a summary, which we trust will be intelligible to the reader, of the somewhat complicated process by which the quantity of gold and silver kept in circulation is regulated.

*Summary of the process*

The greater is the quantity of coin in circulation, the higher, *cæteris paribus*, will be the price of commodities. But as the price of commodities rises, the value of gold, or the value of any other substance out of which money is made, declines. If the value of gold diminishes, the profits of the miners who produce this gold must diminish, and when the profits are thus reduced many will be discouraged from gold mining, and the supply of gold will consequently be also diminished. We shall now be able readily to explain the means by which the demand for gold is equalised to its supply. We will first enquire what is meant by a country's demand for the precious metals, and in order to simplify this enquiry, let it be supposed that such a metal as gold is employed for no other purpose except to be coined into money. This supposition will much simplify our investigations, and will not in any sensible degree affect the correctness of our ultimate conclusions, for, as we have before stated, the quantity

*by which the demand for gold is equalised to the supply.*

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of gold used for the ordinary purposes of art and manufacture is only subject to very small variations from year to year.

*If the wealth of England were to increase, either the amount of money must increase or the value of gold must increase.*

According to this assumption it will be correct to say that the amount of gold coinage which a country requires determines its demand for gold. We have already stated, in this chapter, that the amount of coinage which a country keeps in circulation is primarily regulated by the amount of wealth which is exchanged for money, and by the number of times which any of the commodities that compose this wealth are bought and sold. If, in the absence of any counteracting circumstances, England's wealth were doubled, and if in every trading transaction the amount of wealth bought and sold were doubled, England would require twice as much money in order to effect her transactions of buying and selling. But in what sense is an increased amount of money necessary? What would be the consequences if a larger amount of money were not brought into circulation? We shall answer these questions by showing, in the first place, that the increased quantity of money is required in order to preserve general prices unchanged; and that, secondly, if the money were not forthcoming, the prices of all commodities would decline, or, in other words, the value of gold would be increased.

*Hypothetical case investigated.*

With the view of substantiating these propositions, we will investigate the following hypothetical case. Let it be supposed that the material wants of England's entire population are suddenly doubled, and that an adequate supply of commodities is spontaneously provided to meet this increased demand. According to this hypothesis the supply of every commodity except money would be augmented; each person who before purchased one loaf of bread, one pound of meat, and one coat, would now purchase two loaves, two pounds of meat, and two coats. But since he possesses no more money than he did when his material wants were satisfied with only half the amount of com-



modities he now requires, he and every other individual can only now give the same quantity of money for two loaves, two pounds of meat, and two coats, as they before gave for one loaf, one pound of meat, and one coat. If, however, this be the case, bread, meat, clothes, and every other article must have declined one half in price. It is therefore evident that, in this imaginary case, where circumstances have occurred which doubled the demand for money without its supply being increased, the price of all commodities will be diminished one half, or, in other words, the value of gold will be doubled; buying and selling, however, will neither be interfered with, nor will the people be prevented satisfying their demand for commodities, nor will less material wealth be produced and consumed.

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*If the demand for money increases faster than the supply prices fall.*

Again, it would be said that a nation requires, and therefore has a demand for, a greater quantity of coinage, if her population and wealth should increase; but, in this case, the greater quantity of coinage is required in order to prevent prices from declining, for if the greater quantity were not forthcoming, trade would not be prevented from developing, the production of wealth would not be stopped, but the prices of all commodities would inevitably decline. This general decline in price is quite as undesirable as a general rise in prices, for if prices either suddenly rise or suddenly fall the conditions of every monied contract are immediately altered; the annuitant, for instance, who is in the receipt of his 100*l.* a year, may suddenly find, if there is a general rise in the price of commodities, that his annual income is only one half as valuable, or, in other words, will only purchase him one half as much of the necessaries and enjoyments of life. On the other hand, if prices suddenly fall, the burden of any fixed money payment will be at once increased; thus the farmer who is bound to pay 500*l.* a year as rent to his landlord might be seriously impoverished, because this 500*l.* would

*All variations in price are undesirable.*

BOOK III. represent twice as much agricultural produce. It is, there-  
 CH. VI. fore, most desirable that the value of gold should remain as constant as possible. Hence, if an increase of population and wealth causes a country to require a greater amount of coinage, the demand for gold and silver which is thus produced represents as much a real want as does the demand for food represent a desire to avert hunger.

*The average price of commodities is determined by the cost of production of gold.*

Although it is clearly important that prices should not vary, the question now arises, Why should prices happen to be what they are at any particular time? Why, on the one hand, should there not have been a smaller production of gold, and lower prices—or why, on the other hand, should there not be a greater production of gold, and higher prices? The gold mines of the world have never in one year yielded more than a small portion of what they might have yielded if more labour and capital had been employed upon them. But this increased amount of labour and capital has not been embarked in gold mining, precisely for the same reason that a greater quantity of labour and capital has not been employed upon the mines of Cornwall. If the price of copper was greatly increased, then copper mining would become a more profitable speculation. There would be a greater inducement offered to extend mining operations, and an increased amount of copper ore would inevitably be raised. If, on the other hand, the value of copper were diminished, the profits of copper mining would also be diminished, and a less quantity of copper ore would be annually raised. If, in the same way, the value of gold were to increase, or, in other words, if general prices were to decline, an increased quantity of gold would be annually produced. If, on the contrary, the value of gold were to fall, or general prices to rise, the profits of gold mining would be decreased, and the annual yield of gold would diminish, because with the diminution in the profits of gold mining there would be less inducement to employ labour and capital upon gold digging. An increase in the

demand for gold is evidenced by a fall in the price of commodities; but, as we have just stated, such a fall in general prices stimulates an increase in the annual yield of gold, and in this manner an agency is constantly brought into operation to equalise the supply of gold to the demand, or, in other words, to preserve a uniformity of general prices. The process is exactly analogous to the equalisation in the demand and supply of every other commodity. If the demand for cotton goods increases, the price or value of cotton goods will rise, but a rise in the price of cotton goods causes their supply to be also increased. The reason, therefore, why there is an apparent exception in the case of gold arises from this circumstance. An active demand for any other commodity is characterised by a rise in its price or value. The same holds true with regard to gold, but since we cannot speak of the price of gold, we are compelled to say that an increased demand for gold signifies a rise in its value, but a rise in the value of gold can only be shown by a fall in general prices.

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*The process which equalises the supply and demand of gold is not peculiar to itself if we substitute value for price.*

The leading propositions which we have established in this chapter are briefly these:—If the demand for gold increases without the sources of its supply becoming more productive, the increased quantity of gold required will be obtained at a greater cost, and the result must be that the value of gold will rise. An increase in the value of gold must be shown by a fall in general prices, since the price of gold cannot vary in those countries where this metal is adopted as a monetary standard. If, on the other hand, rich gold mines should be discovered, and the cost of obtaining gold should be lessened, the supply of gold will be increased, and its value must inevitably decline, unless circumstances should simultaneously happen which should cause various countries to require a greater amount of gold money. If such circumstances should occur, an increase in the demand for gold might be created, and the whole of the additional gold

*Recapitulation.*

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 CH. VI. fore, most desirable that the value of gold should remain as  
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*Recapitulation.*

## CHAPTER VII.

## FOREIGN COMMERCE OR INTERNATIONAL TRADE.

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*Advantages of international trade.*

**T**HE advantages which a country derives from foreign commerce must be patent to the most casual observer. By foreign commerce a country obtains various commodities which she cannot produce herself, because perhaps either her people do not possess the requisite skill, or her climate and other circumstances of her physical condition are unsuited to the growth and manufacture of the products in question. Foreign commerce therefore extends the range of man's enjoyments; he is not confined to the products of his own soil, but commodities are brought from every region of the world to minister to his wants. But foreign commerce confers upon man a second advantage, and one equally important, for a single example will show how greatly foreign trade stimulates the production of wealth by increasing the efficiency of labour and capital.

*The mutual advantage gained by France selling wheat to England for hardware.*

If we consider the economical condition of two countries, we shall at once perceive that there is the greatest possible variation in the relative advantages which they possess for the production of various commodities. For instance, the happy mixture of coal and iron-stone, in alternate seams, gives England a most striking advantage in the manufacture of hardware. On the other hand, a country like France has peculiar facilities for the growth of wheat; her land is fertile and its rent low, and her labour is cheap. Wheat therefore will be cheaper in France than in England, and hardware will be cheaper in England than in France.

It will therefore manifestly be to the advantage of each country to exchange wheat for hardware. The full amount of this advantage may be estimated in the following manner:—Suppose that in France the production of a ton of pig iron requires as much labour and capital as the production of twenty sacks of wheat, but that in England the same quantity of iron requires as much labour and capital as would produce ten sacks of wheat; then iron, estimated in wheat, is twice as valuable in France as in England. England therefore might say to France—It will be greatly to our mutual advantage if you will let me supply you with iron, and receive from you wheat in exchange for it. For suppose you give me fifteen sacks of wheat for each ton of iron that I send you, then we shall each gain five sacks of wheat on every transaction; if you manufacture the ton of iron yourself, it would cost you as much as twenty sacks of wheat, whereas you only have to give me fifteen sacks. On the other hand, I should only be able to get ten sacks of wheat for a ton of iron, if I sold the iron in my own country. We therefore each of us obtain a profit upon the transaction, which is represented in value by five sacks of wheat. This is a great gain, and a great saving of wealth, for the gain is made at no one's expense.

In order that two countries should enjoy those striking advantages which we have just pointed out as resulting from foreign commerce, it is not necessary that of the two commodities exchanged the first should be dearer in the one country than in the other, and that the second commodity should be cheaper; all that is necessary is that in the two countries there should be a difference in the relative value of the commodities which are exchanged. It is very important to bear this remark in mind, and we will illustrate its truth by an example. Suppose the cost price of a ton of iron produced in France is 30*l.*, and that the price of a sack of wheat is 30*s.*; a ton of iron would

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*This advantage may be gained whenever the prices of two articles bear a different proportion to each other in different countries.*

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therefore, in accordance with the supposition above made, exchange in France for twenty sacks of wheat. But, in England, a ton of iron is supposed to exchange for only ten sacks of wheat. Let it therefore be considered that a ton of iron in England is worth 10*l.*, and that a sack of wheat is worth 1*l.* Wheat and iron are therefore both cheaper in England than in France, but iron is three times as dear in France as in England, and wheat is only one and a half times as dear. There is therefore a difference in the *relative* value of wheat and iron in the two countries, and hence a foreign trade in these two commodities can be carried on with great advantage to the two countries concerned. For if England gives France a ton of iron in exchange for fifteen sacks of wheat, each country will upon the transaction obtain a profit which in value is to be estimated at five sacks of wheat. But all the gain which arises from this exchange would be at once lost if there were no difference in the relative value of wheat and iron in the two countries, for if wheat as well as iron were three times as dear in France as in England, it would be impossible for England or France to realise any profit by exchanging iron for wheat; the transaction would involve heavy loss to each party, because there would be no profit to counterbalance the expense involved in exporting the commodities from one country to the other.

*Cost of carriage.*

In explaining the profit realised by two countries from foreign commerce, we omitted to mention the cost of carrying these commodities from one country to the other. This cost of carriage has, of course, to be deducted when estimating the aggregate gain resulting from foreign trade. We shall have not only to consider this item, but we must be careful to point out the causes which fix the exact portion of the whole cost of carriage which is borne by each of the two countries. It will, however, much simplify our investigations if for the present we omit any consideration of the cost of carriage. Upon this hypothesis we



shall be more readily enabled to expound the principles of international trade, and we shall afterwards have no difficulty in applying to these principles any modifications which it may be necessary to make in consequence of the expense which is involved in transporting commodities from one country to another.

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In order still more to simplify the subject, we will, in the first place, consider that England's foreign commerce is restricted to one country, and that her exports to this country, and her imports from it, are confined to two commodities. Let us revert to our former example, and assume that England's foreign commerce consists entirely in sending iron to France, and receiving wheat in exchange for it. As yet our only object has been to prove that England and France might both realise considerable profit if there was a difference in the relative value of wheat and iron in the two countries. We have shown above, that upon every ton of iron exported, England and France might both obtain a profit equal in value to five sacks of wheat, if a ton of iron were worth respectively twenty sacks of wheat in France, and ten sacks in England: this particular profit would manifestly be realised if fifteen sacks of wheat were given for one ton of iron. But the question now arises, Is it necessary that these, and no others, should be the terms of the bargain? Why should not twelve sacks of wheat instead of fifteen sacks be given for each ton of iron? The trade would still be highly remunerative to each country, although the profit resulting from the transaction would now be unequally instead of equally distributed, for France would obtain a profit represented by eight sacks of wheat upon each ton of iron exported from England, whereas the profit realised by England upon the same transaction would be no more than two sacks of wheat. Our readers may be sure that the terms of such a bargain are not regulated by blind chance; the buyer and seller in the transactions of international

*If commerce be supposed restricted to two articles*

*what would be the terms of exchange?*

trade are shrewd merchants, whose business it is to buy as cheaply as they can and to sell as dearly. We will at once proceed to explain the principles which regulate all the bargains of international trade.

If England could receive fifteen sacks of wheat for every ton of iron she exported to France, the quantity of iron which she would be willing to export upon these terms might be greatly in excess of the quantity of iron which France requires. If this be so, then the supply of iron to France would manifestly be in excess of the demand; we therefore have to consider how the supply may be equalised to the demand, and we shall discover that the process by which this equalisation is effected exactly resembles that process of equalisation which takes place in the case of commodities which are bought and sold in the country where they are produced.

We have already seen that when the supply of any commodity is in excess of the demand, the commodity must be cheapened in order to equalise the supply to the demand, and in cheapening the commodity its supply will be diminished and the demand for it will be increased. England, therefore, will be compelled to offer her iron to France on more favourable terms, if the quantity of iron which England exports is more than sufficient to meet the demand which France has for iron. Let it therefore be assumed that France only gives England fourteen sacks of wheat instead of fifteen for each ton of iron. This change in the terms of the bargain will manifestly exert an influence in two distinct ways towards equalising the demand for iron in France to the supply which is imported from England.

In the first place, the profit obtained upon the transaction by the English manufacturer of iron will be diminished, and therefore he will be induced to export a less quantity of iron to France than he did when fifteen sacks of wheat were given for each ton of iron. The supply of iron to France will in this manner be decreased, and at the same

time the demand for iron in France will be increased, because if any commodity is cheaper the demand for it always becomes greater, and iron must manifestly be cheapened in France if fourteen sacks of wheat instead of fifteen are given for each ton of this metal which is imported. If, however, this alteration in the terms of the bargain is not sufficient to equalise the demand to the supply, and if the quantity of iron which England is willing to export still exceeds the quantity which France requires, the terms of the bargain must be further altered in the same direction. It may, therefore, be assumed that England will be compelled to offer France iron at the rate of thirteen instead of fourteen sacks of wheat for each ton of metal exported. Let it, therefore, be supposed that these are the terms upon which this international trade is finally adjusted; thirteen sacks of wheat being exchanged for one ton of iron. Some important propositions may be deduced from the description which has just been given of the internal mechanism which regulates the bargains of international trade.

As an example, the reader will observe that the whole profit which accrues upon each transaction of international commerce is shared, between the two trading countries, in the inverse ratio of the demand which one country has for the commodity which it imports from the other. Thus, in the case of the trade between France and England, we have considered that the partition of the profit is made according to the following ratio:—England upon each ton of iron exported obtains a profit equal in value to three sacks of wheat, whereas the profit secured by France is seven sacks of wheat, or, in other words, more than twice as much as that which falls to the lot of England. But if the demand for iron in France should increase, France would obtain a smaller share of the profit, and England of course a greater share. This proposition, after what has been stated, can scarcely need any explanation. When

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*less favourable to it;*

*or, the profit of each country is in an inverse ratio to its demand for the imported goods.*

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*The process by which the equalisation of supply and demand is effected in this case, is similar to that which takes place in home trade.*

If England could receive fifteen sacks of wheat for every ton of iron she exported to France, the quantity of iron which she would be willing to export upon these terms might be greatly in excess of the quantity of iron which France requires. If this be so, then the supply of iron to France would manifestly be in excess of the demand; we therefore have to consider how the supply may be equalised to the demand, and we shall discover that the process by which this equalisation is effected exactly resembles that process of equalisation which takes place in the case of commodities which are bought and sold in the country where they are produced.

We have already seen that, when the supply of any commodity is in excess of the demand, the commodity must be cheapened in order to equalise the supply to the demand, for by cheapening the commodity its supply will be diminished, and the demand for it will be increased. England, therefore, will be compelled to offer her iron to France on more favourable terms, if the quantity of iron which England exports is more than sufficient to meet the demand which France has for iron. Let it therefore be assumed that France only gives England fourteen sacks of wheat instead of fifteen for each ton of iron. This change in the terms of the bargain will manifestly exert an influence in two distinct ways towards equalising the demand for iron in France to the supply which is imported from England.

*An increased demand of one country for the produce of the other makes the terms*

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As an example, the reader will observe that the whole profit which accrues upon each transaction of international commerce is shared, between the two trading countries, in the inverse ratio of the demand which one country has for the commodity which it imports from the other. Thus, in the case of the trade between France and England, we have considered that the partition of the profit is made according to the following ratio:—England upon each ton of iron exported obtains a profit equal in value to three sacks of wheat, whereas the profit secured by France is seven sacks of wheat, or, in other words, more than twice as much as that which falls to the lot of England. But if the demand for iron in France should increase, France would obtain a smaller share of the profit, and England of course a greater share. This proposition, after what has been stated, can scarcely need any explanation. When

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thirteen sacks of wheat are given for one ton of iron, there is a certain definite quantity of iron which England is willing to export upon these terms. But if this particular quantity of iron no longer satisfies the demand of France, then France, in order to induce England to send her more iron, must offer higher terms for this iron; and thus France may, in consequence of her increased demand for iron, be compelled to give fourteen sacks of wheat instead of thirteen for each ton of iron, and the whole profit of the transaction will then be divided between France and England in the ratio of six to four, instead of in the ratio of seven to three.

*Effects of lowering the cost of production of one of the commodities exchanged.*

Let us next enquire what will be the effect upon the ratio in which the aggregate profits are divided if the production of one of the commodities interchanged is cheapened in England, but not in France. Suppose that in England some rich deposits of iron ore are discovered, or that, in the process of smelting, some improvements are introduced which France has not perhaps either the appliances or the enterprise to adopt. The cost of producing iron might in this manner be so materially diminished in England that a ton of iron will become equivalent in value to eight sacks of wheat instead of ten, while at the same time there is no diminution in the cost of producing iron in France; and therefore in that country a ton of iron, if no supplies were obtained from other countries, would be still equivalent in value to twenty sacks of wheat. The whole profit which will now result from the interchange of iron for wheat between England and France will be represented by twelve sacks of wheat, instead of by ten. The question therefore arises, Will England be able to appropriate to herself the whole of the additional profit? That she will be able to do so may at first sight seem probable, because the improvements or discoveries which have cheapened the cost of iron are due entirely to her, and have as yet exerted no effect in

diminishing the cost of producing iron in France. England has been obtaining, as we have supposed, thirteen sacks of wheat for each ton of iron; if France was still to carry on the commerce upon these terms, now that a ton of iron is only worth eight sacks of wheat in England, the profit obtained by England would be increased from three sacks of wheat to five sacks of wheat, or, in other words, she would appropriate to herself the whole advantage arising from the diminished cost of iron; France still having to give for iron exactly what she did before. But the competition of the English iron masters will inevitably prevent this taking place, for directly they find that the profits obtained upon the export of iron to France are so greatly increased, they will be anxious to send a much larger quantity of iron to France; iron will, in fact, be forced upon the French markets, greatly in excess of the quantity required. This is sure to be the case, since before increased exports of iron were encouraged by high profits, the demand for iron in France was exactly equalised to its supply. The terms upon which the trade between France and England is conducted must become less favourable to the latter country, in order, on the one hand, to induce England to export less iron, and, on the other hand, to induce France to purchase a greater quantity of the iron imported from England. In this manner England may be compelled to exchange only eleven, or even ten sacks of wheat, for each ton of iron. We have here simply to repeat, what was stated in the case above analysed, that the terms upon which the bargain is finally adjusted depend entirely upon the equalisation of the demand to the supply. If, when a ton of iron is exchanged for eleven sacks of wheat, the quantity of iron sent to France is in excess of that which she requires, the terms of the exchange must be still further reduced; perhaps, when only ten sacks of wheat are given for one ton of iron, the demand for iron in France may be exactly equal to the

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*It does not follow that the country in which the production is cheapened will gain all the advantage.*

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supply, and if this be so, then ten sacks of wheat for one ton of iron will be the terms upon which the exchange is finally adjusted. But if this were so, it is manifest that France must then have obtained a greater portion of the profit which arises from the diminished cost of producing iron, even although this diminution in the cost of producing iron has been confined entirely to England; for if ten sacks of wheat are given for a ton of iron, the profit secured by France upon each ton of iron she imports will be an equivalent in value to ten sacks of wheat, whereas the profit secured by England will be only two sacks of wheat. This is a smaller profit than she obtained before the cost of producing the iron she exports was reduced, and therefore it would appear that France, instead of England, has been able to appropriate the whole of the additional profit. This may appear to be a paradoxical result, but it is one which it is very possible may really occur.

*The profit arising from international trade is distributed amongst the whole people.*

We have in this chapter spoken so frequently of the profit which arises from international trade, that our readers may naturally ask, Into whose possession does this profit fall? When England obtains a profit of five sacks of wheat upon each ton of iron she exports, is this profit solely enjoyed by the English merchant, and the English iron master, or is it distributed amongst the great body of the English nation? To this important question we can at once reply, the profit arising from international trade is due to a saving of labour and capital, and this profit cannot be entirely usurped by the merchants, or by those who produce the commodity exported; but the profit is distributed amongst the great body of the people who consume the imported commodity: *a priori* reasoning will readily prove that the gain which results from international trade cannot be entirely engrossed by the merchant or the producer of the exported commodity, for we trust that our readers have now become familiar with the conception, that



the competition of capital reduces the profits of every trade and industry to a certain uniform rate, if proper allowance is made for circumstances, such as the exceptionally great risks which belong to some departments of industry. Now we have seen that the gain which England derives from her trade with France may amount in value to as much as five sacks of wheat upon each ton of iron exported. This will represent a profit of fifty per cent., because in England it has been supposed that a ton of iron is worth no more than ten sacks of wheat. But if the English iron masters were obtaining such a profit as fifty per cent., every one would be anxious to join the business, in order to participate in these great gains; an intense competition would inevitably ensue, which would be certain in a short time to make the manufacture of iron not more profitable than other branches of industry. But if the profit of international trade is distributed amongst the whole body of those who consume the imported commodity, we have next to enquire into the process by which this distribution is effected.

We have supposed that in France a ton of iron costs as much to produce as twenty sacks of wheat, whereas in England the production of a ton of iron only costs as much as ten sacks of wheat. It is therefore evident, supposing there were no foreign commerce between the two countries, that the price of iron would be 20*l.* a ton in France, when the price of wheat there was 1*l.* per sack, and that in England the price of a ton of iron would be 15*l.*, when the price of wheat in England was 30*s.* a sack. What effect would be produced upon the price of these commodities by a commerce between the two countries? In order to investigate the question which has just been put, let it be supposed that France gives England fifteen sacks of wheat for each ton of iron; a ton of iron must now, therefore, in each country, be worth as much as fifteen sacks of wheat, for how can a ton of iron in France continue to be worth

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*Process by  
which this  
is effected.*

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twenty sacks of wheat, when France can obtain as much iron as she requires by offering England fifteen sacks of wheat for each ton of the metal; and who again, in England, will now any longer exchange a ton of iron for ten sacks of wheat, when France gives fifteen sacks of wheat for each ton of iron that is exported. The value of iron therefore, if estimated in wheat, appears to have risen in England, and to have declined in France; for, considering the question from a different point of view, we may say that the value of wheat, estimated in iron, has fallen in England; whereas, on the other hand, it has risen in France. Foreign commerce has therefore, in each country, produced a change in the relative value of these two commodities. The price of a ton of iron will now, in France, be no longer equivalent in price to twenty sacks of wheat. In the same way the price of a ton of iron will, in England, be no longer equivalent to the price of ten sacks of wheat, for since in each country a ton of iron now exchanges for fifteen sacks of wheat, the price of a ton of iron must now in each country be equivalent in price to fifteen sacks of wheat. If, therefore, in England, a ton of iron still continues to sell for 10*l.*, fifteen sacks of wheat will only sell for 10*l.*; or, in other words, wheat will be 13*s.* 4*d.* a sack; and if, in the same manner, wheat continues to be 1*l.* per sack in France, a ton of iron will there sell for 15*l.*; there will therefore have been a reduction of twenty-five per cent. in its price, for before, a ton of iron sold for 20*l.* Hence it appears that the effect of foreign commerce between two countries is to reduce the price, in each country, of the commodity which is imported; wheat will be reduced in price in England, and iron will be reduced in price in France, and the persons who consume wheat in England, and those who use iron in France, will consequently have distributed amongst them the gain which results from international trade. In fact, the main effect of foreign commerce is to increase the efficiency of labour and

*The price of the imported commodity is lowered in the importing country.*

capital; foreign commerce causes labour and capital to be applied in such a manner as will make them most productive of wealth. According to our assumption, England possesses peculiar advantages for the manufacture of iron, whereas France is much better adapted to grow wheat than to produce iron. Each country must therefore be mutually benefited, if England produces iron for France, and France grows wheat for England.

We do not pretend to say that the figures above given represent with numerical exactness the reduction in the price of iron and wheat which would actually occur. Upon the hypothesis we have made, wheat will in England be reduced in price to 13s. 4d. a sack, and iron will in France be reduced to 15*l.* a ton, if we suppose that the price of iron in England, and the price of wheat in France, are unaffected by the international trade between these two countries. But we shall be able to show that this will not, as a general rule, be the case. Let it, for instance, be assumed that 500,000 tons of iron is the quantity which England each year requires for her own use, and that she annually exports to France 100,000 tons; the question will then be suggested, Will the price of iron be raised in consequence of the additional 100,000 tons of iron which have annually to be produced for export to France? If no rise of price results, the price of iron will be unaffected by foreign trade. But we have shown, in Chapter III. Book III., that the price of minerals is regulated by laws analogous to those which control the price of agricultural produce. Consequently, in the absence of any counteracting circumstances, the price of iron must rise if its supply has to be increased, because less productive veins of iron-stone will have to be worked in order to obtain the additional 100,000 tons of iron annually exported to France. These considerations show that the price of iron may very possibly in England be advanced from 10*l.* to 12*l.* a ton; if this be so, the importation of wheat from

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*The price of the exported commodity is generally affected in the country exporting it.*

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France will not cause so great a reduction in its price as that we have above supposed, for although England may still obtain fifteen sacks of wheat for one ton of iron, yet this ton of iron is now worth 12*l.*; the fifteen sacks of wheat will therefore be worth 12*l.*; or, in other words, wheat will in England be 16*s.*, instead of 13*s.* 4*d.* a sack.

*It may be supposed that the benefits of international trade are at the cost of one class of traders.*

We trust that it has now been made evident to our readers, that it is not the traders, or merchants, but the consumers of imported commodities who derive the greatest benefit from foreign commerce. A cursory view, however, of the subject may perhaps induce some to believe that the advantage which we have pointed out as resulting from foreign commerce is in a great degree counteracted by the pecuniary loss which is inflicted upon the home producers of those foreign commodities which are reduced in price by foreign importation. For instance, with reference to the trade in wheat and iron which we have supposed to exist between France and England, it may be said, that, though there can be no doubt as to the benefit conferred upon the English nation by a reduction in the price of wheat from 30*s.* to 16*s.* a sack, it should on the other hand not be forgotten that this reduction in price must inflict serious loss upon the English growers of wheat, and that therefore the community is benefited at the expense of one class of traders. Such an opinion may no doubt be still entertained by many, although it indicates a complete ignorance of the principles of international trade. This opinion, in fact, formed the ground-work upon which were based all the fallacious arguments of those who advocated protective duties. We will therefore proceed to explain the manner in which the position of the home-producer of a commodity is affected when the price of the commodity is reduced by foreign importation.

*Proof that*

In the example above investigated, the hypothesis has been made, that 100,000 tons of iron are each year sent to

France, for which England obtains in exchange 1,500,000 sacks of wheat. England, now that she imports wheat, will manifestly have to raise from her own soil a diminished quantity of wheat. Her own yield of wheat might be annually diminished by 1,500,000 sacks. The area of her soil which is devoted to the growth of wheat will therefore be lessened, and wheat will no longer be grown upon that land which is least fertile; or, in other words, the least adapted to the growth of wheat. The margin of cultivation will therefore ascend, and rents must be reduced. The farmer will thus be compensated for the reduction in the price of wheat; the landlords will suffer a loss from this diminution in the value of their land; the farmers may also be temporary losers; some farmers, for instance, may be bound by long leases, and rents may not be immediately adjusted consistently with the reduction which is supposed to have taken place in the price of wheat. The home trader therefore may no doubt suffer loss from the competition of foreign traders in the same branch of industry; but it must be remembered that everything will again be adjusted, because, as has been so frequently remarked, the competition of capital is constantly exerting a tendency to smooth down any temporary inequality in the profits of different trades. Even if it is admitted that any particular class of traders are injured by foreign importations, the loss of profit which they thus suffer cannot justly be regarded as a confiscation of their private property, against which the government is bound to protect them. There can be no right to which a nation has a more defensible, or a juster claim, than that every individual of the community should be freely permitted to obtain commodities where he can buy them on the cheapest terms, and to sell them where he can realise the highest price.

The trade between England and France—which, as an illustration, has already been analysed—suggests one or two other points for consideration, which must be examined in

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of corn in  
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port it.*

order to establish a complete theory of international trade. Summarising the hypothetical result at which we have arrived, it will be remembered that 100,000 tons of iron are exported from England, and that in exchange for this iron 1,500,000 sacks of wheat are imported into England. It has also been supposed that iron has been raised in price in England from 10*l.* to 12*l.* a ton, in consequence of this foreign demand, and hence it has been also concluded, that since fifteen sacks of wheat are given in exchange for one ton of iron, fifteen sacks of wheat will be in England of the same value as one ton of iron. But if this be so, the price of wheat must manifestly be in England 16*s.* a sack, because the price of iron is considered to be 12*l.* a ton. We have assumed that, if there was no foreign trade, the price of wheat in England would be 30*s.* a sack; let it also be supposed that the English nation annually consumes 6,000,000 sacks of wheat, therefore the English farmers can grow 6,000,000 sacks of wheat, and obtain the current rate of profit if the price of wheat is 30*s.* a sack. But if 1,500,000 sacks of wheat are imported into England from France, the quantity of wheat which will then be required to be grown in England will be 4,500,000 sacks instead of 6,000,000 sacks; those lands, therefore, will be no longer sown with wheat which are least adapted for its growth.

*The amount  
of wheat  
produced in  
the country  
will deter-  
mine the  
price of  
wheat.*

We enunciated, in Chapter III. of this book, the laws which regulate the price and value of agricultural produce, and our readers will remember that the price of wheat is determined by the cost of producing it on those soils which are the least fitted for its growth. The price of wheat, therefore, will manifestly decline if the quantity which is required to be grown in England is diminished twenty-five per cent., and such a decrease as this in the quantity required to be grown at home will manifestly result from the importations from France. Before these foreign importations commenced, 30*s.* a sack was a price adequate

to remunerate those who grew wheat upon the least fertile soils. The question therefore arises, What will be the price which will adequately remunerate the growers of wheat, when the quantity of wheat required is diminished twenty-five per cent.?

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The terms upon which the foreign commerce between England and France is supposed to be conducted imply that the price of wheat in England would be 16s. a sack. But now this important point has to be considered, Will the quantity of wheat which is required by England (namely 4,500,000 sacks) be grown if the English farmer can only obtain 16s. a sack for wheat? It is manifest that the quantity of wheat required will not be produced if 16s. a sack is not a remunerative price, for English farmers of course grow wheat for profit, and not for philanthropy. The people, however, must be supplied with wheat; if therefore 16s. a sack is not a sufficient price to induce the English farmers to grow the quantity of wheat required, a higher price will be willingly offered, rather than that there should be any deficiency in the supply. Let it therefore be supposed that wheat advances to 20s. a sack, and that at this price the supply is sufficient to meet the demand. But let us now consider in what manner the commerce between England and France will be affected by this advance in the price of wheat. At first sight it may appear that the profits of those who export iron would be enormously increased by this advance in the price of wheat; an iron-master, for instance, if he sells a ton of iron in England, only obtains 12*l.* for it, whereas by sending it to France he can exchange it for fifteen sacks of wheat, which are in England worth 15*l.*; therefore his profits appear to be increased by 3*l.* upon each ton of iron exported. But the competition of capital will, in this as in every other case, render it impossible for the iron-master to continue appropriating to

*If the price as determined previously is insufficient to cause the necessary amount to be grown,*

*the price must rise.*

*The profits of producers will not be affected,*

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himself these exceptionally high profits, for each iron-master would eagerly strive to send as much iron as possible to France if the price obtained for a ton of iron exported to France exceeded by 3*l.* the price realised for the iron when sold in England. This anxiety to export iron would soon cause the French market to be over supplied; iron would therefore fall in price in France, or, in other words, iron would exchange for a less quantity of wheat. In this way the quantity of wheat given for a ton of iron might be reduced from fifteen to twelve sacks of wheat. This fall in the price of iron in France will increase the demand for iron in that country, and we may consider that 120,000 tons of iron are exported to France, whereas the annual export of iron had before only amounted to 100,000 tons. This increased demand thus excited in France for English iron will affect its price in the latter country, and the price may consequently advance in England from 12*l.* to 13*l.* a ton. Such are the terms, we may suppose, upon which the exchange between the two countries is ultimately conducted. A ton of iron will therefore now be equivalent in value to twelve sacks of wheat; but a ton of iron is in England worth 13*l.*, therefore the price of wheat in England will be 21*s.* 8*d.* a sack. When wheat is at this price a much greater quantity can be grown in England at a remunerative profit than when a sack of wheat sold for 16*s.*, and we may therefore consider that the wheat now grown in England, together with the wheat imported from France, is sufficient to supply the English market. From what has been just stated it will be perceived that it is necessary, in order to adjust the equation of international trade, that the demand and the supply should be equalised in both the countries.

*but the terms of international trade will be differently adjusted.*

*Is the consumer of commodities invariably benefited by*

It will be remarked, that the price both of the imported and the exported commodity is affected by foreign commerce. We have, for instance, supposed, if England had no foreign commerce, that the price of wheat would be



30s. a sack, and that the price of a ton of iron would be 10*l.* It has been shown that, by foreign commerce, the price of a sack of wheat may be reduced from 30s. to 21s. 8*d.*, and the price of a ton of iron raised from 10*l.* to 13*l.* It may therefore be naturally asked, Is it certain that the consumer of commodities is benefited by foreign commerce? May not the advantage arising from the reduction in the price of the imported commodity be entirely nullified by a rise in the price of the exported commodity? It can be proved, without entering into details, that the wealth of a nation must be increased by foreign commerce. Foreign commerce increases the productive powers of labour and capital by causing labour and capital in each country to be applied to those particular branches of industry for which the country has the greatest natural advantages. Thus the wheat imported into England would cost very much more, if grown in England, than the iron costs with which this wheat is purchased from France. Consequently foreign commerce increases the productive powers of labour and capital, and therefore must augment each nation's wealth.

It is however no doubt true, that a particular class of consumers may not be benefited, but, on the other hand, may be injured by foreign commerce. If, for instance, wheat is imported from France to England, in exchange for iron, an increased quantity of wheat must be grown in France, and therefore the price of wheat will rise in France; the iron which France imports from England will of course be reduced in price. But to the great body of the people, and certainly to the labouring classes, cheap iron will afford no compensation whatever for even a slight rise in the price of bread, and thus the labouring classes in a country may be injured by foreign commerce, although it augments the wealth of a nation. It is quite possible that the labouring classes of a particular country may suffer very seriously from foreign commerce, if the exports consist of

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*international  
trade?*

*It is possible that a particular class may be injured.*

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commodities which are more generally consumed than those which are imported. If France exported wheat, wine, and live stock, and imported woollen cloths and iron, it is very probable that cheaper iron and clothes would not adequately compensate the labouring classes in France for an advance in the price of meat, bread, and wine. The injury which, in this manner, may be inflicted upon the labouring classes by foreign commerce, will generally in some degree be counteracted by advantages which are not connected with the change in the price of commodities.

*Foreign commerce must tend to raise wages.*

Foreign commerce economises labour and capital, and therefore must exert some tendency towards increasing the nominal wages of the labourer, for when labour and capital are economised, an equal amount of material wealth can be produced by the application of a diminished quantity of labour and capital. But if this be so, the labourer's wages will be increased without encroaching upon his employer's profits; in fact, since more wealth is produced, there will be a larger aggregate amount to be divided between the employer and the employed, and consequently the profits, as well as wages, may be augmented.

*Although this loss to the consumer may take place,*

We have been the more anxious to point out the loss which foreign commerce may inflict upon those who consume the exported commodity, although the loss is one which is doubtless generally more than made up for in practice by counterbalancing advantages, because it is too much the custom to think only of the interest of the trader or merchant, and entirely to forget the consumer. Many of our statesmen consider that the nation must be advancing in prosperity and happiness if the Board of Trade Returns exhibit an augmentation in the exports and imports. But on behalf of the consumer it should be borne in mind, that a rise in the price of the commodities exported is not unfrequently a prominent feature of an expanding foreign trade. Although this, as a possible result of foreign trade, is one which ought not to be lost sight of, yet we should be the

last to advocate that commercial intercourse between countries should be impeded, because commodities may rise in price in the country from which they are exported. A policy which should attempt such restrictions would not only be unwise, but ought almost to be stigmatised as wicked. Man, we conceive, has an indefeasible right that the wealth which ministers to his wants, and provides his enjoyments, should be produced with as little labour as possible. This can only be secured by perfectly free commercial intercourse between all nations. The benefits conferred by foreign commerce are truly cosmopolitan; it brings men of every nation in contact, and thus becomes the most powerful agent of civilisation. Foreign commerce removes the barriers between nations, and makes them one, as far as their industrial economy is concerned. A rancorous enmity, combined with an ignorance of the true principles of trade, has for centuries opposed every possible obstacle to a trade between France and England. Many of our manufactured commodities were far superior to those possessed by the French, and they, on the other hand, had products which could not be grown on our own soil, and under our climate. If the Straits of Dover were bridged over by a narrow strip of land, and the two countries formed one nation, it would seem inexpressibly absurd that those who lived in the north of the country should scarcely be permitted to taste the products which are grown in the south; and it would seem equally absurd, that people in one part of the country should be compelled to manufacture certain commodities, under the most unfavourable conditions, because they were not permitted to purchase these commodities in another part of the country, although there the quality would be better, and the price cheaper. A restrictive policy which seems so unreasonable if two nations become one, is not more defensible when the two nations are separated by a boundary which is often merely artificial.

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on trade  
are impoli-  
tic and  
unjust.*

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*The cost of  
carriage  
must be  
taken into  
account.*

It now becomes necessary, in order to complete the theory of international trade, no longer to omit from our consideration the cost of carrying from one country to another the commodities which are interchanged. The subject will be best explained by our former example. Let it be assumed that the cost of exporting iron from the English to the French markets is 1*l.* per ton, and that the cost of exporting wheat from the French to the English market is 2*s.* a sack; the question therefore at once suggests itself, What share of this cost of carriage is borne by each country respectively? Let the terms of exchange be one ton of iron for twelve sacks of wheat; the iron in England being raised in price from 10*l.* to 13*l.* a ton, in consequence of the foreign demand. We will first examine what will take place if the cost of carriage were borne entirely by the exporter; the English merchants paying the whole expense of sending the iron to France, and the French merchants paying the whole expense of sending wheat to England. Upon this hypothesis, although England would nominally sell her iron to France at 13*l.* a ton, yet the real price would be only 12*l.*, because 1*l.* per ton has to be deducted for cost of carriage; similarly 2*s.* a sack would have to be deducted from the nominal price which the French obtain for the wheat sent to England. If, therefore, France gave England 13*l.* a ton for iron, iron must be selling in the English market for 12*l.* a ton; if it sold for more, it would be manifestly to the advantage of the English merchant to dispose of his iron at home, instead of exporting it to France; and for the same reason wheat must be selling in the French market at 2*s.* a sack less than the price at which England purchases it from France, in order to compensate the French exporter of wheat for the cost of carriage. Each country will therefore have to pay a higher price for the commodities they import, in consequence of the cost of carriage, and therefore the demand for the imported commodity will not be so

great as it would be if no expense were involved in carrying goods from one country to another. There will therefore be a diminution in the French demand for English iron, and in the English demand for French wheat. But the falling off in the demand may vary in different ratios in the two countries. Thus a rise of 2s. in the price of French wheat may diminish the demand for French wheat in England by one-fifth, whereas a rise of 1l. a ton in the price of iron may cause only a decrease of one-tenth in the quantity of iron purchased by France from England. Our previous analysis has shown that the terms upon which commodities are exchanged, in international trade, are entirely regulated by the demand. Each country purchases the imported commodities by those which are exported, and the amount of the demand which a country has for any commodity depends upon its price; if, therefore, a country wishes another to purchase a greater quantity of her exports, the price of these exports must be reduced; consequently, when the bargain of international trade is finally settled, the price of imported and exported commodities must be such that each country is enabled, by means of her exports, to pay for all the commodities which are imported.

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*The demand in each country will be checked, but in different ratios.*

If the cost of carriage should raise the price of the commodities interchanged in foreign commerce, the amount of this increased cost, which is borne by each of the countries respectively between whom the trade is carried on, depends upon the relative degree in which the demand for imported commodities is affected. Thus we have supposed that the cost of carriage diminishes the demand for French wheat in England by one-fifth; whereas the same cause only diminishes the demand for English iron in France by one-tenth. We will illustrate this by a numerical example.

*The share of cost of carriage borne by each depends upon this ratio.*

Suppose that 100,000 tons of iron would be each year exported from England to France, if commodities could

*Analysis of the effect*

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*The cost of carriage must be taken into account.*

It now becomes necessary, in order to complete the theory of international trade, no longer to omit from our consideration the cost of carrying from one country to another the commodities which are interchanged. The subject will be best explained by our former example. Let it be assumed that the cost of exporting iron from the English to the French markets is 1*l.* per ton, and that the cost of exporting wheat from the French to the English market is 2*s.* a sack; the question therefore at once suggests itself, What share of this cost of carriage is borne by each country respectively? Let the terms of exchange be one ton of iron for twelve sacks of wheat; the iron in England being raised in price from 10*l.* to 13*l.* a ton, in consequence of the foreign demand. We will first examine what will take place if the cost of carriage were borne entirely by the exporter; the English merchants paying the whole expense of sending the iron to France, and the French merchants paying the whole expense of sending wheat to England. Upon this hypothesis, although England would nominally sell her iron to France at 13*l.* a ton, yet the real price would be only 12*l.*, because 1*l.* per ton has to be deducted for cost of carriage; similarly 2*s.* a sack would have to be deducted from the nominal price which the French obtain for the wheat sent to England. If, therefore, France gave England 13*l.* a ton for iron, iron must be selling in the English market for 12*l.* a ton; if it sold for more, it would be manifestly to the advantage of the English merchant to dispose of his iron at home, instead of exporting it to France; and for the same reason wheat must be selling in the French market at 2*s.* a sack less than the price at which England purchases it from France, in order to compensate the French exporter of wheat for the cost of carriage. Each country will therefore have to pay a higher price for the commodities they import, in consequence of the cost of carriage, and therefore the demand for the imported commodity will not be so

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*The demand in each country will be checked, but in different ratios.*

If the cost of carriage should raise the price of the commodities interchanged in foreign commerce, the amount of this increased cost, which is borne by each of the countries respectively between whom the trade is carried on, depends upon the relative degree in which the demand for imported commodities is affected. Thus we have supposed that the cost of carriage diminishes the demand for French wheat in England by one-fifth; whereas the same cause only diminishes the demand for English iron in France by one-tenth. We will illustrate this by a numerical example.

*The share of cost of carriage borne by each depends upon this ratio.*

Suppose that 100,000 tons of iron would be each year exported from England to France, if commodities could

*Analysis of the effect*

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of the bargain will most turn to the advantage of that country whose demand for the imported commodities is either most diminished or least increased by the new conditions of which account has to be taken.

*The assumption made above that the difference of price of any commodity in two countries cannot exceed the cost of carriage shown to be true.*

It has been assumed, in the remarks which have just been made, that the difference in the price of any commodity, in two countries between which there is free commercial intercourse, cannot exceed the cost of sending a commodity from one country to the other. Although this proposition appears to us to be a self-evident truth, yet it may be perhaps advisable to say a few words upon it. Let us take, as an example, the one we have above analysed. It has been there assumed that the cost of sending iron to France is 1*l.* a ton, and the cost of sending wheat from France to England is 2*s.* a sack. If there was no cost of carriage, the price of iron and wheat must be the same in England as in France, because if iron would realise even as little as 2*s. 6d.* a ton more in France than in England the English iron-masters would vie with each other to sell as much of their iron as possible in France, in order to secure the extra 2*s. 6d.* a ton, and eager competition would rapidly reduce the price of iron in the two countries to an equality. It will be remembered that it has been also assumed, in our example, that if there were no cost of carriage English iron would sell in each country for 15*l.* a ton, and French wheat would sell in each country for 20*s.* a sack. These prices would adjust the equation of international trade, enabling the exports of each country exactly to pay for the imports. Again, it has been assumed that, when the cost of carriage is taken into consideration, English iron must sell for 15*l. 15s.* a ton in France, and French wheat must sell in England for 21*s.* a sack, in order that the equation of international trade may be satisfied. The question now suggests itself, What, under these circumstances, will be the price of English iron in England, and what will be the price of



French wheat in France. We answer, at once, that the price of iron in England will be 14*l.* 15*s.* a ton, and that the price of wheat in France would be 19*s.* a sack. This we maintain must be the case, for since the cost of sending iron from England to France is supposed to be 1*l.* a ton, the difference in the price of iron in the two countries must be 1*l.* a ton. For if the difference was less than this, and the price of iron was 15*l.* a ton in England, no iron-masters would send any iron to France, as it would be so much more remunerative to sell it in England.

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Again, there cannot be a greater difference in the price of iron in the two countries than 1*l.* a ton, for if iron was 16*l.* 10*s.* a ton in France, and 15*l.* in England, the English iron-masters would vie with each other to sell all their iron in France, because their iron, after paying the cost of carriage, would realise 10*s.* a ton more in France than in England. These considerations establish the proposition that the difference in the price of any commodity, in two countries, is exactly equivalent to the cost of sending this commodity from the one country to the other.

*The difference of price must exactly equal the cost of carriage.*

It may be objected that prices in different countries cannot be compared, because countries have seldom the same currency. Without anticipating the remarks we shall make, in a future chapter, on currency, it will be sufficient to state here that the price of a commodity in different countries can always be compared by considering how much gold it will exchange for. The distinctive characteristic of a substance like gold is, that it is a universal medium of exchange; people in France are as ready to sell their commodities for gold as we are in England. The cost of sending an ounce of gold to France is most trifling, and therefore, if an ounce of gold would purchase a greater quantity of wheat in France, including the cost of sending the wheat from France to England, than could be purchased by the same quantity of gold in England, gold will be exported to France for the purpose of pur-

*These results are not affected by the difference of currency in two countries.*

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chasing wheat. The demand for wheat would therefore rise in France, and its price would increase. Similarly, if the English consumers of wheat purchased wheat from the French instead of the English growers, the demand for wheat in England would decline, and this rise in the price of French wheat, and this fall in the price of English wheat, would continue until at length there ceased to be any profit in sending gold from England to purchase wheat in France. Such a profit would manifestly cease to exist if there was no greater difference in the value of wheat in the two countries, estimated in gold, than would be equivalent to the cost of carriage. But we have defined the price of a commodity to be its value estimated in gold. It may be therefore said that, if the trade between two countries is perfectly free, there cannot permanently be any greater difference in the price of any commodity in the two countries than would be equivalent to the cost of carrying the commodity from the one country to the other.

*These truths may be extended to trade between any number of countries in any number of articles.*

Throughout this chapter, the assumption has been made that foreign commerce has been restricted to two countries, and to two commodities. The principles which have been deduced from this assumption enable us to establish a complete theory of international trade. For let us take the international trade of a country like England, as it is really carried on, and consider how the bargains of foreign commerce are adjusted, when England exports the most varied commodities to every country in the world, and imports in exchange every product which can either gratify the desires, or minister to the wants of the people. In this case it is equally true that there is an equation of international trade which must be satisfied, and it is easy to show, by a method of investigation similar to that pursued when corn was supposed to be exchanged for iron, that the aggregate exports must pay for the aggregate imports. The terms upon which this exchange is con-

ducted are regulated entirely by the relative amount of the demand which exists in two trading countries for the various commodities which each country respectively imports. We have already shown that England must give France a greater quantity of iron for the same amount of wheat, or, in other words, the terms of the exchange will turn to the advantage of France, and to the disadvantage of England. If England's demand for French wheat increases in a greater ratio than the demand of France for English iron, in a similar way the bargain of foreign trade will become less favourable to England, or, in other words, England will be compelled to receive less for her exports, and to give more for her imports, if her demand for the various commodities which she imports increases in a greater ratio than the demand which countries may have for the various commodities which compose her aggregate exports.

We have now investigated in sufficient detail the principles of international trade. We proceed to apply these principles to a very important case, for in the next chapter we shall investigate the laws which determine the value of money, when the precious metals of which money is composed are considered as commodities exported and imported as ordinary commodities of commerce.

## CHAPTER VIII.

ON THE TRANSMISSION OF THE PRECIOUS METALS FROM  
ONE COUNTRY TO ANOTHER.

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*Gold may  
be trans-  
mitted  
either as an  
article of  
commerce  
or as  
money.*

**E**ACH country obtains its supply of the precious metals in two distinct ways. In the first place, gold and silver are imported from the mining countries as an ordinary commodity of commerce, and secondly, the precious metals, in the form of money\*, are sent from one country to another for various purposes. For instance, loans are raised in England for India, and these loans are in a great part transmitted to that country either in bullion or in specie. England annually purchases from China an enormous amount of tea and silk, and China prefers to be paid for this tea and silk by the precious metals rather than by our manufactured goods. Formerly a great portion of the rent of the land in Ireland was paid in money to absentee landlords. Capital may be invested in our funds and railways by foreigners, whose dividends will be annually paid to them in money. Again, with regard to international trade, it must be remembered that commodities are not always exchanged by barter, but are almost always bought and sold for money. English merchants who purchase wheat from France pay for it in money, instead of offering other commodities, such as iron and coal, in

We shall, in this chapter, speak of the precious metals and money as synonymous expressions. This we are justified in doing, because it has been usually shown that the value of gold and silver when in bullion must be the same as when coined into money. If an ounce of gold could be coined into four pounds sterling, the value of the ounce of gold must be 4*l.*

exchange for this wheat. These, and many other circumstances which might be enumerated, cause a considerable amount of the precious metals to be constantly passing, either in the form of money or bullion, from one country to another. We will, in the first place, restrict our attention to the exportation of the precious metals from the countries whence they are obtained.

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A considerable portion of the industry of Australia and California is devoted to gold-digging, and gold is, to these countries, as truly a staple article of export as hardware or cotton cloth are with regard to our own country. We may, therefore, consider the precious metals as an ordinary article of export or import, and the value of these metals is consequently regulated by the same laws as those which determine the value of any other commodity which is bought and sold in the transactions of foreign trade. For instance, Australia, like any other country, must pay for the commodities she imports by those which she exports. It makes no difference whatever that a principal part of Australia's exports happens to be gold. It may in fact be shown, that the discovery of rich gold mines in Australia exerts on the industry of that country an influence similar to that which would be produced by the discovery of rich deposits of some material which England exports; such, for instance, as iron. If the discovery of very rich deposits of iron-stone caused a great increase in the quantity of iron annually produced in England, iron would inevitably decline in price. This decline in price would increase the home demand for iron, and the foreign demand would also be increased, because iron would be offered to foreign countries at lower rates. An equality between the demand and the supply would in this manner again be restored, and the whole of the increased quantity of iron produced would be quickly absorbed.

*Gold forms part of the ordinary exports of some countries, and its value is determined on the same principles as that of other commodities.*

We may, in a similar way, trace the results which would ensue if there should be a great increase in the yield of

*A great increase in*

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gold in Australia, or in the yield of silver in Mexico and Peru. At the present time the annual produce of gold in Australia is about 2,500,000 ounces. Suppose that, from the discovery of rich deposits, or from improvements in quartz-crushing, Australia annually yielded 5,000,000 ounces of gold, instead of 2,500,000 ounces. How would this increased quantity of the precious metals be absorbed? We have seen that additional supplies of iron would be absorbed by a decline in its value increasing the demand for it. Let us now enquire if an additional supply of gold will not be absorbed in a similar way.

*would be absorbed in the same way as a great increase in the production of iron.*

It is quite evident that Australia would not require this additional 2,500,000 ounces of gold for her own use. She will therefore export the gold to other countries, but in what form, and for what purpose, will this gold be exported? In the first place, Australia, having become so much wealthier, would more largely purchase foreign commodities. Every article of luxury or utility which Australia had been previously accustomed to obtain from foreign countries, she would now purchase in larger quantities. The consequence of this would inevitably be, that these commodities would advance in price, on account of the increased demand. Suppose the exports from England to Australia were doubled, this increased demand would cause the price of the articles which compose these exports to rise in England, as well as in Australia. The value of gold, estimated in these commodities, would therefore decline, and thus a tendency is exerted, just in the same way as in the case of the iron, to cause the increased yield of gold to be absorbed, in consequence of a decline in its value.

*Gold is also transmitted in the form of money*

Having now considered the case in which the precious metals are sent from the mining countries as a staple commodity of commerce, we will proceed to investigate the second of the two modes by which the precious metals are distributed over the world. We have, at the commence-

ment of this chapter, enumerated some of the various purposes for which gold and silver are transmitted from one country to another in the form of money. The reason of this constant transmission is, that gold and silver contain great value in a small bulk, and therefore can be sent from one country to another at little cost. The precious metals, moreover, are willingly accepted in exchange for goods purchased by every trading community in the world. Each year we purchase an enormous quantity of tea and silk from China. The Chinese are not very willing to accept any of our manufactured goods in exchange, but they seem eager to sell us as much tea and silk as we choose to take, if we will only pay them for it by gold and silver. Many of the commodities which we import from India are paid for by money; vast sums of specie are also sent from England to India, to pay the various officers of our government, both civil and military, and also to pay the wages of those engaged upon the railways, and other public works which are in the course of being constructed, principally by English capital. In fact, so various are the purposes for which England is obliged to send the precious metals to the East, either in the form of bullion or specie, that the annual export of the precious metals from this country to India and China has, in some years, amounted to at least 12,000,000*l*.

The precious metals are also transmitted from one country to another, for the purpose of investment. If, according to our former example, the yield of gold in Australia should be doubled, it would be reasonable to conclude, that the whole of this increased gold would not be entirely absorbed by the expanding trade, both home and foreign, which would no doubt be stimulated by such an increased production of wealth. Many of those who possessed the gold would send a portion of it to England and other countries, to be invested in various securities, such as funds, railway shares, &c. Statistical returns

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prove that this is the course pursued. Almost the entire gold which Australia annually yields is sent to England. A portion of this, but probably only a very small portion, pays for the commodities which England exports to Australia; a great part of the remainder is invested in our funds, in railway shares, bank shares, and various other securities, which are bought and sold in our money market. The precious metals which are thus poured into England she again redistributes, each year sending, as we have just remarked, no less a sum than 12,000,000*l.* sterling to India and China.

*The quantity of money in circulation must increase as commerce increases in order that prices may not fluctuate.*

In our remarks on price, we have shown that the general prices which prevail in a country are regulated by the extent of the country's commerce, and by the amount of the precious metals which exist in the country in the form of money. It may, in general terms, be stated, that if the population and wealth of a country increase, prices will decline, unless a greater amount of money is brought into circulation. On the other hand, prices will rise if a greater amount of money is brought into circulation, when there is neither an expansion of commerce nor an increased production of wealth. It is most undesirable that there should be any great fluctuations in general prices; it is true, however, that popular feeling is not unfrequently opposed to this idea, for there are many who still think that general high prices are advantageous to the producers of commodities, and that a general decline in prices would benefit those who purchased the commodities. A general rise or fall in prices means that the standard of value is altered; if there is a general rise in prices to the extent of one hundred per cent., two sovereigns will be only worth as much as one sovereign was worth before; the country would not be richer; the only result would be, that the terms of every money contract would be altered. Those who had fixed money payments to make would only have to give half as much value as before, and all whose incomes



were derived from such investments as funds, guaranteed stocks, &c., would have their real incomes diminished one half, for 300*l.* a year would now be worth no more than 150*l.* a year was worth previously. Such consequences would not only be disastrous to individuals, but would also, if of frequent occurrence, give to all monetary transactions an uncertainty which would act most prejudicially upon the interests of commerce. It is therefore of great importance that general prices, or, in other words, the value of gold, should fluctuate as little as possible. General prices are, as we have stated, regulated by the quantity of money in circulation, compared with the amount of the nation's wealth and commerce; hence, in order to prevent a fluctuation in the general prices which prevail in a country, the quantity of money in circulation ought to increase or decrease as the commerce of the country increases or decreases.

It may appear that such an adjustment can have little chance of being made in England, because she receives gold from so many sources, and again sends it to other countries for so many various purposes. But, in spite of this apparent complexity, there is an agency constantly at work to regulate the quantity of money in circulation, so that the value of gold exhibits great steadiness, and, except within certain small limits, is subject to few fluctuations. The mode in which this agency acts may be explained in the following manner. Suppose that the quantity of gold which England should import from the gold-producing countries during the next year were to exceed by 4,000,000*l.* the amount which she imports during the present year; but that in every other respect there should be no difference with regard to her commerce, either home or foreign, between the next year and the present one. This extra 4,000,000*l.* of gold, we may further suppose, is sent to the Bank of England, and there coined. It might, therefore, appear that an additional 4,000,000*l.* of money is brought into

*Method of adjustment which tends to keep prices constant in England.*

circulation, and that, in consequence of this increased specie circulation, general prices would inevitably rise. But this rise in general prices could not long continue; a force would be brought into operation which would exert a tendency to restore prices to the point at which they previously stood. For if such a general rise in price should occur in England during the next year, and no similar rise should take place in other countries, it would manifestly be to the interest of England to purchase such commodities as wheat from foreign countries, in order to avoid the higher prices which are supposed to prevail in England. Foreign merchants would also be anxious to participate in the high prices which are current in England, and would therefore increase, as far as possible, the quantity of goods which they export to England. Both of these causes would act in the same direction, and would alike exert an influence to increase England's imports and to diminish her exports. The equation of international trade would therefore be disturbed, a large amount of money would be sent abroad to pay for these increased imports; in this manner the gold which we have supposed was temporarily added to England's circulation would be rapidly withdrawn. The extra 4,000,000*l.* of gold would not be added to England's specie circulation, but would be gradually distributed over every trading country.

We have now described the various modes in which the precious metals are transmitted from one country to another; we shall devote a special chapter to the consideration of the leading effects which have been produced by the remarkable gold discoveries which have been made during the last few years. No question in the whole range of economic science has, at the present time, more important bearings.

## CHAPTER IX.

## FOREIGN EXCHANGES.

IT was remarked in the last chapter that, in foreign commerce, commodities are seldom exchanged by barter; each country usually purchases its imports by money, and sells its exports for money. If we export coal to France and import silk from that country, we do not barter a cargo of coal for so many bales of silk, but the coal is sold for money and the silk is purchased by money. Let us suppose that A, an English merchant, sells a cargo of coal to B, a French merchant, for 1000*l.*, and that C, another English merchant, purchases from D, a French merchant, a certain number of bales of silk for 1000*l.*\* It is manifest that there are two distinct ways in which such trading transactions as these we have just mentioned may be settled. In the first place, B may pay for the coal he purchases by sending to A 1000*l.* from France to England, and in a similar way C may pay for the silk which he purchases by sending to D 1000*l.* from England to France. It is evident that, if this plan were adopted, the risk and expense would be incurred of sending 1000*l.* from France to England, and also of sending 1000*l.* from England to France.

A second very obvious course might be adopted, which would avoid the necessity of transmitting any money from one country to the other, and consequently the expense to which we have just alluded would be saved. If C were

\* The currencies of France and England are, in the first instance, supposed to be identical.

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*Methods by which international debts may be settled.*

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instructed to pay the English merchant A 1000*l.*, instead of paying the same amount to D, who lives in France, and if the French merchant B was also instructed to pay D 1000*l.*, instead of sending this amount to A in England, the debts due to A and D for the coal and silk they have respectively sold would be completely discharged without the transfer of any money from the one country to the other. The course we have just described is that which is almost invariably adopted in the transactions of foreign commerce, and bills of exchange are the means by which the method is carried into practical effect. It is only necessary to explain the nature of bills of exchange, in order to show the admirable machinery they provide for arranging the bargains of foreign commerce, by the transmission of the smallest possible amount of specie from one country to another.

*Bills of exchange.*

*Their nature.*

In the above example, where A sells B a cargo of coal for 1000*l.*, A receives from B a bill of exchange, and this bill is simply a written acknowledgement that B owes A 1000*l.*, and that this amount will be paid at the date for which the bill is drawn, if it is presented either at B's own banker's, or at any other establishment which has confidence in B's solvency. In a similar manner the French merchant D, who sells 1000*l.* worth of silk to the English merchant C, receives from C a bill of exchange for this amount. The English merchant A has therefore in his possession a bill for 1000*l.*, which has to be paid in France, and D, the French merchant, has also a bill for 1000*l.*, which is to be paid in England; if A and D exchange these bills, then A has a bill which will be paid in England, and D has a bill which will be paid in France, and therefore both A and D's debt can be discharged without the transmission of any specie whatever from one country to the other. The exchange which we have here supposed to take place between A and D is not usually effected directly by merchants themselves; such transactions form a

distinct business, which is carried on by a class of middle men, who are termed money dealers or bill discounters\*.

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The English merchant A, instead of waiting to exchange his bill with the French merchant D, at once takes it to an English discount house, who readily cash it for him, A paying a small sum for commission; D in a similar manner gets his bill cashed by taking it to a discount house in France; in this way the English discount houses collect all the bills which are drawn upon France, and the French discount houses collect all the bills which are drawn upon England. The French and English discount houses then exchange the bills thus gathered together, and are remunerated for the trouble which they thus take, by the small commission which is paid to them. If, therefore, the value of the exports sold to France is exactly equal to the value of the imports which are bought from that country, the whole of the trade between the two countries can be carried on without the transmission of any specie; in fact the transmission of specie can be as completely avoided as if the whole trade was one of barter, and coal and iron were bartered away for silk and wine.

*If the value of imports and exports are equal, transmission of specie is avoided by the use of bills of exchange.*

It will, however, very rarely happen that the money value of the exports which are sold to any particular country is exactly equal to the money value of the imports which are bought from the same country. Suppose that the annual value of England's exports to France was 10,000,000*l.*, and that the annual value of the imports from that country was 12,000,000*l.* Under these circumstances it is manifest that the bills which are in the possession of French merchants, and which are drawn in

*If a balance is due from England to France, bills of exchange on France will be at*

\* Popular prejudice attaches to a bill discounter a certain opprobrium, for it is not unfrequently supposed that he is a person who lends money at usurious rates of interest. It is hardly necessary to state that we do not share this prejudice; for we conceive that no business is more legitimate or more useful than that which is carried on by the discount houses in a commercial country.

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*a premium  
about equi-  
valent to  
the cost of  
transmit-  
ting specie.*

England, will exceed in amount by 2,000,000*l.* the bills which are drawn upon France, and which are in the possession of English merchants. It is, of course, to the interest of the English merchant to pay the French merchant by bills drawn upon France, because by doing so the English merchant saves the expense of sending specie to France, and the French merchants who have bought the goods we export are for similar reasons anxious to pay the English merchants by bills drawn upon England. But since the value of England's imports from France exceeds the value of her exports to that country, England will have to pay to France a larger sum than France has to pay England, and therefore the demand which exists in England for bills drawn on France will exceed by 2,000,000*l.* the demand which exists in France for bills drawn on England. In fact, English merchants have to pay in France 12,000,000*l.*, and there are only 10,000,000*l.* of French bills wherewith to make the payment; some of the English merchants, therefore, will be obliged to transmit specie to the amount of 2,000,000*l.*, and those who do transmit this specie must incur the expense of the transmission. If this expense were two per cent., it would, of course, be to the advantage of the English merchants to purchase bills in France, even if they paid one and a half per cent. premium for them; for if bills were bought at this premium it would be cheaper by one half per cent. to make payments to France by means of these bills, instead of transmitting specie, which, as we have supposed, involves an expense of two per cent. English merchants, therefore, will compete for the purchase of bills drawn on France, and this competition will inevitably raise these bills to a premium which is approximately equivalent to the expense of transmitting specie to France. The premium upon bills cannot exceed this amount, because if it did so then it would be cheaper to transmit specie than bills.

Similar considerations will show that, in France, bills which are drawn on England will be at a corresponding discount. French merchants have to receive 2,000,000*l.* more for goods exported to England than they have to pay for goods imported from that country. In France there will be 12,000,000*l.* of bills drawn on England in possession of French merchants, and since France has only to pay England 10,000,000*l.*, there will be a demand for only this amount of bills drawn on England. 2,000,000*l.* of the bills drawn on England must therefore be sent to England to be cashed, and the money will then have to be transmitted to France. But if a bill drawn on England is not wanted in France to pay for goods bought in England, such bills must, of course, fall to a discount. A money dealer obviously cannot afford to give a merchant more than 98*l.* for a bill on England for 100*l.* if it is necessary to send this bill to England to be cashed, and have the money transmitted to France, since it has been assumed that such transmission costs two per cent. of the specie transmitted. When, therefore, bills drawn upon France are at a premium in England, bills drawn on England will be at a corresponding discount in France. When the state of things which we have here described exists, it is technically said that the exchange is against England and in favour of France.

The origin of this phraseology may be readily explained. It is evident, from our remarks above, that the exchange is against England, and in favour of France, when the commerce between the two countries is such that it is necessary to send specie from England to France. At one time, as we have previously stated, the belief was universal, and is still very general, that the profit which a nation derives from foreign commerce could be accurately estimated by the amount of specie which she succeeded in drawing to herself from other countries. This belief formed the basis of the Mercantile System, and the statesmen

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*Bills on England will be at a corresponding discount.*

*The meaning of saying that in this case exchange is against England, and in favour of France.*

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of every commercial nation have, in years gone by, vied with each other to frame ingenious devices which should, as far as possible, encourage the importation of the precious metals, and should impede their export. It is no wonder, then, that the exchange is described as being against a country, when its foreign trade is in such a position as inevitably to require the transmission of specie to foreign countries.

*The meaning of exchange at par.*

We have now sufficiently analysed the meaning of those expressions which are so constantly used in every-day life, namely, that the exchange is against, or in favour of a country. The exchange will, of course, be at par when the value of the exports to a country exactly equals the value of the imports from the same country. If we had supposed, in the above example, that the value of England's imports from France was 10,000,000*l.* instead of 12,000,000*l.*, then, in each country, the demand for bills drawn upon the other country would be exactly equal to the amount of bills to be disposed of; nothing will cause the bills of either country to rise to a premium, or fall to a discount, and the exchange would in each country be at par.

*Currencies have hitherto been supposed identical.*

Hitherto, in this chapter, we have supposed that the currencies of different nations are identical. We will now examine a case where two countries, such as France and England, have the different currencies which they possess at the present time, and which, in spite of reason, economy, and convenience, they will probably maintain for many ages to come.

*How our conclusions must be expressed when the currencies differ.*

In the French currency, the franc, as the general measure of value, occupies the same position as the pound sterling does in our own coinage. If the French wish to express the value of a landed estate, or any other kind of wealth, they say that it is worth so many millions of francs. In order to compare values which are thus differently expressed in the two countries, it will be sufficiently exact



if we consider that 25 francs are equivalent to 1*l.* sterling. When, therefore, an English merchant sells 100*l.* worth of goods to a French merchant, the former would receive a bill drawn upon the French merchant for 2500 francs, and not, as we have above supposed, for 100*l.* If imports from France to England exceed in value the exports from England to France, the exchange will be against England, and in favour of France; but, if this be the case, England will have to make larger payments to France than France has to England, and there will consequently be in England a greater demand for bills drawn on France than there exists in France for bills drawn on England. Consequently, a bill drawn on France for 2500 francs will in England be worth more than 100*l.*; and, on the other hand, a bill on England for 100*l.* would in France be worth less than 2500 francs. It is manifest that the premium at which bills drawn on France are in England, and that the corresponding discount at which bills drawn on England are in France, cannot exceed the cost of transmitting specie from the one country to the other. If the cost of this transmission should be two per cent., then, under the circumstances we have assumed, it is quite reasonable to conclude that a bill upon France for 2500 francs would in England sell for 101*l.* 10*s.*, and that a bill upon England for 100*l.* would in France only sell for 2463 francs.

It should moreover be borne in mind, that when the exchange is against one country and in favour of another, specie must not only be sent from the former to the latter country, but the money of the former country will also be depreciated in value, when compared with the money of the latter country.

*In this case the money of one country may be depreciated relatively to that of the other.*

When the exchange is against England, suppose that a person who intends to travel in France takes 100*l.* to some money exchange office in London, for the purpose of having it changed into French coin. Let us continue

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the assumption that, when the exchange is at par, 25 francs are equivalent in value to 1*l.* sterling. The question now arises, How many francs will be given at a money exchange office in London for 100*l.*, when the exchange is against England? Since the exchange is against England, English money must be sent to France to adjust the trade between the two countries, but no French money will for a similar purpose have to be sent to England. The money exchange offices will therefore be compelled specially to obtain French money from France; they must therefore be compensated for the cost of importing this French coin, and consequently 1*l.* sterling of English money will exchange for less than its equivalent value in French money, namely 25 francs. English money, therefore, would be depreciated in value, compared with French money, and this depreciation would not be avoided, even if the English money were exchanged for French money in Paris, instead of in London; for since the exchange is against England, English money is sent from England to France, therefore there is a surplus of English money in France, or, in other words, English money is at a discount when compared with French money.

If, on the other hand, the exchange is in favour of England, the English money will be comparatively of greater value than French money, and 1*l.* sterling will exchange for more than 25 francs. Suppose that a person wishing to exchange English money for French money goes to an exchange office in London. A favourable exchange implies that there will be a surplus of French money in England, because French money has been sent to England in order to adjust the trade between the two countries. People therefore will be anxious to dispose of this French money, for it will not in England perform the ordinary functions of money. English tradesmen will not accept 3 francs instead of half-a-crown, cab fares cannot be paid in French coin, and a person in London with only

*Meaning of  
a favourable  
exchange in  
this case.*

French money in his pocket would be subject to as many inconveniences as if a traveller were in Paris with only English money in his pocket. Those persons, therefore, in England to whom French money has been sent to pay for the excess of exports to that country, will be anxious to convert this French money into English money. This French money cannot be sent back to France, without involving the cost of transmission. A considerable loss will also be incurred if the other alternative is adopted, and the French money which is in England is melted in order to be sold as bullion. These considerations show that French money must be depreciated, or, in other words, when foreign exchanges are technically said to be against a country, the money of the country will be depreciated, when compared with the money of those countries with regard to which the favourable exchange is supposed to exist.

Our remarks would seem to show, that when two countries such as France and England are considered, the bills of exchange which are drawn upon either of these countries cannot either rise to a greater premium, or fall to a greater discount, than that which would be represented by the cost of transmitting the precious metals from the one country to the other. Some facts, however, may be recalled, which seem to contradict this conclusion. For instance, it is well known, that when the news of Napoleon's return from Elba was first brought to England, the price of bills drawn upon foreign countries suddenly rose ten per cent. Mr. Mill has remarked, "Of course this premium was not a mere equivalent for cost of carriage, since the freight of such an article as gold, even with the addition of war insurance, could never have amounted to so much. This great price was an equivalent, not for the difficulty of sending gold, but for the anticipated difficulty of procuring it to send; the expectation being, that there would be such immense remittances

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*Causes which may increase the premium or discount on bills of exchange beyond the cost of transmitting gold.*

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to the Continent in subsidies, and for the support of armies, as would press hard on the stock of bullion in the country."

*The statement that this premium is equal to the cost of transmitting gold must be modified,*

When the exchange is against any particular country, or, in other words, when bills upon foreign countries are selling at a premium, it may be thought that this premium must be always exactly equivalent to the cost of transmitting the precious metals. It may be urged, that an unfavourable exchange is caused by the necessity of transmitting specie, in order to pay for an excess of imports over exports, and that therefore the competition of merchants amongst each other to purchase foreign bills of exchange, in order to avoid the cost of transmitting specie, will force all foreign bills to a premium equivalent to this cost of transmitting specie. If, for instance, the cost of sending specie from England to France was two per cent. an English merchant who had payments to make to France would gain some profit, if he paid as high a premium as 1*l.* 19*s.* per cent. for bills drawn on France. It would therefore seem to be proved, that when the exchange is unfavourable, bills must be at a premium equivalent to the cost of transmitting specie. There are, however, other considerations which modify this conclusion, and which also explain the fact, that when the exchange is unfavourable, and bills at a premium, this premium does not remain constant, but varies from day to day.

*because the actual transmission of specie may be avoided,*

It is no doubt true, that bills would invariably be at a premium approximating to the cost of transmitting specie, if it was always necessary to export specie, when the foreign exchanges happened to be unfavourable to a country. But it must be borne in mind, that the balance which a country has to discharge, when the value of its imports exceeds the value of its exports, may often be liquidated without the transmission of any specie. For instance, foreign commerce is liable to constant fluctua-

tions; various circumstances may at any time occur which may increase a country's exports or diminish its imports, and thus an unfavourable may be rapidly converted into a favourable exchange. If such an event is anticipated, those who have payments to make in foreign countries will delay transmitting specie, or, at any rate, will refuse to pay for foreign bills a premium equivalent to the cost of transmitting specie. Such a delay may be obtained by various arrangements; for instance, a person whose credit is good can always readily renew his bills at the current rate of interest.

There are, moreover, valid reasons for assuming that an unfavourable exchange cannot be of long continuance; for specie cannot be withdrawn from the currency of a country, to pay for an excess of imports over exports, without increasing the value of gold in that country, or, in other words, without reducing general prices. But a reduction of general prices at once exerts a tendency to prevent the export of specie. If general prices are lowered in a country, the exports of the country will be increased, because it will be more profitable to sell commodities in foreign countries; under the same circumstances, the imports will be diminished, because foreign countries will not export so large a quantity of commodities to this particular country, when generally lower prices prevail in it. It therefore appears, that an unfavourable exchange cannot long continue, if the specie which is transmitted to foreign countries is supplied from the money of the country. It has, however, been already stated, that the precious metals are often transmitted from one country to another, as an ordinary commodity of commerce. Such an export of specie can scarcely be said to denote an unfavourable exchange, since the specie is not withdrawn from the money of a country, and no effect is consequently exerted on general prices. Australia, for instance, annually sends

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*and an unfavourable exchange exerts a direct tendency to correct itself.*

**BOOK III.** 10,000,000*l.* of gold to England, but this export of gold  
**CH. IX.** from Australia does not show that the foreign exchanges  
are unfavourable with regard to that country; this gold is  
simply exported from Australia as an ordinary commodity  
of commerce.

## CHAPTER X.

## THE FUNCTIONS OF CREDIT.

IN political economy the very name of credit is ominous of confused and never ending discussion. Questions concerning credit may be regarded as the polemics of our science, for the subject of currency is intimately connected with credit, and writers on currency continue to wrangle on points they do not understand, and continue to express their belief that out of the intricacies of the discussions on currency some specific may be evolved which will spontaneously create wealth, and which will provide an adequate remedy for every national disaster. If, however, we bring to the consideration of this subject an unbiassed mind, we shall perceive that there need not be any of this mystery or complexity with regard to the nature and functions of credit. Credit simply signifies the relation which subsists between the borrower and lender; credit consequently implies trust, or confidence. One individual, A, may have a larger amount of wealth than he wishes either to consume or to employ as capital. Another individual, B, may be greatly in want of this wealth, desiring perhaps a greater amount of capital to assist the industry in which he is engaged; B therefore says to A, If you will lend me your wealth, I will pay you a certain annual sum for the use of it, and you may depend upon me to repay it to you when you demand it. If A has sufficient confidence in B's solvency and is satisfied with the terms which are offered, A will lend the wealth to B. In other words, B

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*Credit is a frequent subject of useless discussion,*

*but is in itself simple.*

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*Credit implies borrowing and lending.*

calls his credit into action to borrow wealth from another individual, A; credit therefore simply signifies borrowing and lending. The borrowing does not always take place in the precise manner we have just supposed, but there is no difference in principle, although there may be some difference in the mode in which the transaction is conducted.

*Not necessarily money.*

For instance, it is customary, when wealth is lent, that the loan should be made in money. If, in the above example, the surplus wealth which A is supposed to possess consists of a stock of wheat, he will not, as a general rule, lend this wealth in the form of wheat, for he will almost invariably sell the wheat and then lend the money. Such a course is much more convenient, since a substance which is uniform in its value is always chosen to perform the functions of money. When money is lent, both the borrower and lender very accurately know how much they have respectively to pay and receive. But if instead of money, any other kind of wealth, such as wheat, was lent, great risk would be incurred both by the borrower and lender, because if the wheat were to be repaid at any particular time, the wheat might then be only half as valuable, or, on the other hand, perhaps far more valuable than it was at the time when it was borrowed.

*Circumstances affecting credit.*

If it is borne in mind that credit is a synonymous expression for borrowing and lending, it will be readily perceived that various circumstances are implied in the existence of credit. In the first place, there can be no credit if man has not confidence in his fellow-man. No one would be willing to lend his wealth, unless he believed that he who borrowed it would repay it. The more confident a man is in this belief the less remuneration will he require for the money which he lends. If A lends two sums of 100*l.* each to B and C respectively, and if he places much greater faith in B's honesty and ability to pay than he does in C's, C will of course be compelled to pay a



much greater sum for the use of this loan than B. It need scarcely be said that the annual sum which is paid for the use of borrowed money is termed the rate of interest, and therefore two individuals borrowing at the same time and from the same individual pay a rate of interest which is determined by the confidence which he who lends the money may feel that it will be repaid, or, in other words, by the faith which he places in the solvency of those to whom the money is lent. Since B is supposed to be able to obtain a loan at a lower rate of interest than C, B's credit is for that reason said to be better than C's; hence, credit should be defined as the power to borrow wealth. This definition is more precise than, but not inconsistent with, the meaning given above; for credit being defined as the relation between the borrower and lender, credit will be good when this relation is easily produced, i. e. when money is easily lent or borrowed; or credit will be abundant when there is a large number of persons ready to enter into the relation on both sides, and a large amount of wealth ready to be lent and borrowed.

*Credit is the power to borrow wealth.*

We have said that C's credit would not be so good as B's, if C is compelled to pay a higher rate of interest for money borrowed than B. But it must be remembered that B and C are supposed to borrow money in the same place, and in the same country. If B borrowed in England and C in India, C would be compelled to pay a higher rate of interest than B, although C's credit, so far as depended upon personal character and means, might be quite as good as B's. It would in fact be necessary for C to pay this higher rate of interest, not because his own credit was not good, but because a general higher rate of interest prevails in India than in England. This is tantamount to saying that the credit of India is not so good as the credit of England. The circumstances which determine whether the credit of any particular country is good or bad are very similar to those on which depend the credit of

*This power varies in individuals*

*and in countries.*

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individuals. If the government of a country is unsettled a revolution may quickly displace the ruling dynasty, and the obligation incurred by one government may be disavowed by the next which takes its place. If this be so, those who lend money must be compensated for the increased risk which is incurred. States have not unfrequently exhibited the dishonesty of insolvent traders, and have repudiated their obligations. Those who subscribe to government loans carefully examine the character and the financial position of the states to whom the money is lent. The result of this examination is shown in the price of foreign stocks, for the price of these stocks form a measure of the credit of different countries. Russia can borrow money at five and a quarter per cent. when Turkey is compelled to pay ten and a half per cent. The credit of Russia therefore is twice as good as that of Turkey.

*Confused  
notion that  
credit is  
capital.*

Hence the meaning which we attribute to the word credit, is the power to borrow, whether we speak of the credit of an individual, or the credit of a state. Some of my readers will be no doubt surprised to find so simple a signification given to the word credit, for they have been perhaps accustomed to hear the word spoken of as of grave import. Some, for instance, have authoritatively told us, that the whole science of political economy will be unfolded to those who properly appreciate the great maxim, that credit is capital. But according to our ideas, this is not a maxim pregnant with meaning, but is a phrase which is evidence of confusion of thought. The fundamental idea which we attach to capital is, that it is a fund from which to feed, and otherwise to support labourers. Credit is a power to borrow, and surely labourers cannot be fed on a power to borrow. The power to borrow, if exercised, may obtain capital. Just in the same way, the muscles of my arm will, if required, lift fifty pounds; but it would be very absurd to say, that my muscles were fifty

pounds. We shall proceed to point out the real assistance which credit lends to the production of wealth, and in doing so we shall show, that if there was no credit much less wealth would be saved, and a great portion of that which is saved would cease to be productively employed. But political economists are not justified in affirming the incorrect paradox, that credit is capital, although it may be shown that the existence of credit must materially aid the production and distribution of wealth. If there was no credit, all the capital of the country must be applied to industry by those individuals who actually possess it. A person who saves wealth, but does not wish to employ it upon any industrial purposes, would be prevented using it as capital if, either from want of confidence in his fellow-men, or from any other reason, he was debarred from lending this wealth to those who would be willing to devote it to the further production of wealth. The amount of wealth which is in this manner saved by those who wish others to employ it as capital is enormously great. Some conception of the amount may be formed from glancing over the accounts of such institutions as the London and Westminster Bank. The average amount of the deposits which are held by this bank exceed 18,000,000*l.* This vast amount of wealth has been collected from a multitude of depositors, who are in very different positions in society, and who are engaged in the most varied occupations. Experience teaches, that even the most prudently managed bank need not keep in the form of money an amount exceeding one-third of the sums deposited with it, in order to meet the every-day demands which are made upon the bank by those who have deposited money. If, therefore, a bank has deposit accounts amounting to 18,000,000*l.*, at least 12,000,000*l.* of this sum may be applied by the bank to some productive purposes; the profits of a banking establishment mainly arise from such an application of their deposits, for the bank either employs

*Credit aids the production of wealth, by increasing the accumulation and profitable application of capital.*

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the money directly as capital in carrying out some industrial work from which profit is realised, or, as is generally the case, the bank lends the money to others, who use it as capital, and who pay a certain rate of interest for the loans they have received from the bank. But suppose that either from the instability of the government, from a general low state of morality, or from any other cause, the credit of this country should be destroyed, and as a consequence all confidence in banks and other commercial institutions should be lost: all those who now deposit in banks the money which they do not require for their immediate wants, would then cease to do so, since they would be prompted to hoard it for the sake of security. Now we may form some idea of the extent to which such an event would affect the capital of the country, when we remember, that the credit of the London and Westminster Bank enables that company to gather together 18,000,000*l.* in deposit accounts; of this amount a sum equivalent to at least 12,000,000*l.* is employed as capital. The remarks we have just made suggest one of the many modes by which credit economises the resources of the country. These deposit accounts represent the sums which tradesmen and others keep to meet their current expenses; for instance, a person who receives an official salary of 1,000*l.* does not wish to invest it, because he will have to live upon it during the year. He would also be afraid to keep so large a sum in his own house. He therefore deposits it in a bank, and gradually draws upon it as he requires it; in this manner, the smallest sums which, though not immediately wanted, would not be invested as capital, are collected by banks, and a large proportion of the aggregate sum which is so collected is sure to be productively employed as capital.

*Method by which banks increase the effective resources of the country.*

*Accumulated wealth is made useful by credit.*

Again, many persons who accumulate wealth would not do so if they were obliged to engage in business themselves, and to superintend the industry which may be supported

by the wealth which they save. An individual, A, may have an annual income of 2,000*l.* One thousand pounds a year suffices for his ordinary expenditure, and he is glad to save the remaining 1,000*l.*, if he can profitably invest it. But very probably he does not wish to engage in any industry himself, or if he is already so engaged, he may not wish to extend his operations by bringing more capital into his business. He will therefore of course be anxious to lend the 1,000*l.* which he is disposed to save to some one whom he can trust, and who will pay him interest for the use of it. If it is assumed that the money is lent to B, B probably desires to borrow it, because he thinks that he can so advantageously employ this sum as capital, that there will be a considerable profit remaining to him, after he has paid interest for the use of the loan. If, however, A placed no confidence either in B's credit or the credit of any other individual, he would not be able to lend the 1,000*l.* he saves, and therefore the money would not be employed as capital, unless A chooses so to employ it himself; we have however supposed that he is unwilling to do this, and therefore in all probability he would spend the 1,000*l.*, if the absence of credit prevented him from finding a profitable investment for it. The consequence of this would be, that the industry of the country would be seriously affected, because the accumulation of capital would be greatly impeded.

There is another mode in which the existence of credit most powerfully assists the production of wealth. We have frequently remarked, that nothing contributes more powerfully to promote the wealth of a nation than its public works. The railways, the docks, the canals, and the roads of this country are not only the surest signs of its wealth, but have also been the chief instruments of its industrial greatness. But such an undertaking as a railway requires an amount of capital for its construction too large to be supplied by one individual. Such works,

*Undertakings too great for individual resources are carried out by credit.*

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to the Continent in subsidies, and for the support of armies, as would press hard on the stock of bullion in the country."

*The statement that this premium is equal to the cost of transmitting gold must be modified,*

When the exchange is against any particular country, or, in other words, when bills upon foreign countries are selling at a premium, it may be thought that this premium must be always exactly equivalent to the cost of transmitting the precious metals. It may be urged, that an unfavourable exchange is caused by the necessity of transmitting specie, in order to pay for an excess of imports over exports, and that therefore the competition of merchants amongst each other to purchase foreign bills of exchange, in order to avoid the cost of transmitting specie, will force all foreign bills to a premium equivalent to this cost of transmitting specie. If, for instance, the cost of sending specie from England to France was two per cent. an English merchant who had payments to make to France would gain some profit, if he paid as high a premium as 1*l.* 19*s.* per cent. for bills drawn on France. It would therefore seem to be proved, that when the exchange is unfavourable, bills must be at a premium equivalent to the cost of transmitting specie. There are, however, other considerations which modify this conclusion, and which also explain the fact, that when the exchange is unfavourable, and bills at a premium, this premium does not remain constant, but varies from day to day.

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It is no doubt true, that bills would invariably be at a premium approximating to the cost of transmitting specie, if it was always necessary to export specie, when the foreign exchanges happened to be unfavourable to a country. But it must be borne in mind, that the balance which a country has to discharge, when the value of its imports exceeds the value of its exports, may often be liquidated without the transmission of any specie. For instance, foreign commerce is liable to constant fluctua-

tions; various circumstances may at any time occur which may increase a country's exports or diminish its imports, and thus an unfavourable may be rapidly converted into a favourable exchange. If such an event is anticipated, those who have payments to make in foreign countries will delay transmitting specie, or, at any rate, will refuse to pay for foreign bills a premium equivalent to the cost of transmitting specie. Such a delay may be obtained by various arrangements; for instance, a person whose credit is good can always readily renew his bills at the current rate of interest.

There are, moreover, valid reasons for assuming that an unfavourable exchange cannot be of long continuance; for specie cannot be withdrawn from the currency of a country, to pay for an excess of imports over exports, without increasing the value of gold in that country, or, in other words, without reducing general prices. But a reduction of general prices at once exerts a tendency to prevent the export of specie. If general prices are lowered in a country, the exports of the country will be increased, because it will be more profitable to sell commodities in foreign countries; under the same circumstances, the imports will be diminished, because foreign countries will not export so large a quantity of commodities to this particular country, when generally lower prices prevail in it. It therefore appears, that an unfavourable exchange cannot long continue, if the specie which is transmitted to foreign countries is supplied from the money of the country. It has, however, been already stated, that the precious metals are often transmitted from one country to another, as an ordinary commodity of commerce. Such an export of specie can scarcely be said to denote an unfavourable exchange, since the specie is not withdrawn from the money of a country, and no effect is consequently exerted on general prices. Australia, for instance, annually sends

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*and an unfavourable exchange exerts a direct tendency to correct itself.*

## CHAPTER XI.

## THE INFLUENCE OF CREDIT ON PRICES.

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*Different  
forms of  
credit.*

WHEN an individual, B, uses his credit in borrowing from A a certain sum of money, it is natural to suppose that A will require some written acknowledgement of B's liability to him. The written acknowledgement of such indebtedness may be given in many different forms, and these various forms may be regarded as the tangible evidence of the fact, that credit has been given and taken. It would be well to describe some of these forms in detail.

*Bills of  
exchange.*

We will commence with a bill of exchange, for we have already remarked upon this instrument of credit. It is well known, that the wholesale transactions of commerce are seldom carried on by ready money. If A sells B a cargo of coal for 1,000*l.*, A receives an acknowledgement of the debt due to him in the form of a bill; this bill is a written promise\*, that B will pay a certain sum to A on a particular day, and in the bill it is stated what consideration has been given for the debt which has been incurred. The time which is to elapse before the bill falls due is a matter of previous arrangement between A and B, but upon this point different customs prevail in various trades, which are very uniformly observed. When, for instance, a draper purchases goods of a warehouseman, a bill for three months is almost always given, but in the book trade it is customary to give a bill for six months.

\* The promise is almost invariably given in the form of a written order to a banker, who becomes the medium of payment.



A bill of exchange affords a convenient instrument for facilitating credit, for if in the above transaction B, who is supposed to purchase the coals, should be a stranger to A, it is probable that A may require some additional security besides the written promise of B to discharge the debt. Some bank with whom B does business may have perfect confidence in him. B will go to this bank and say, A is not satisfied with my promise to pay, but he no doubt would be if a public institution like yours would give him some testimony as to my solvency; the bank grants this request by placing its name upon the back of the bill, which is technically called endorsing the bill. This endorsement makes the bank liable to pay the bill in the event of B refusing to do so; A then accepts the bill, being satisfied with this additional security. Now A may perhaps be in want of ready money, and does not wish to wait until the bill falls due. He therefore gets this bill discounted; discounting the bill means selling the bill for ready money. If the person who discounts this bill for A is satisfied with the security which is provided by the two endorsements which are already on the bill, he accepts the bill without any further endorsement; but if he is not satisfied, he may also require the endorsement of A, the person from whom he purchases the bill. A bill of exchange may be thus bought and sold any number of times before it falls due, and perhaps each time it is so bought and sold it receives an additional endorsement, and thus it not unfrequently happens that before a bill is finally presented for payment it is almost completely covered with endorsements.

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*They are a convenient form of credit.*

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When credit is given by banks, it usually assumes the form either of bank notes or cheques. The distinction between a bank note and a bill of exchange is this: a bank note is a written promise to pay a certain sum whenever it may be demanded, whereas a bill of exchange is a written promise to pay a sum at a certain date, which is

*Bank notes and cheques*

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 as issued by  
 State banks

stated on the bill. Moreover, in almost every country certain privileges are given to bank notes which are not possessed by any other instruments of credit. Almost every country has a State bank, and the bank notes issued from these institutions are generally made a legal tender. In this country, any debt can be discharged by offering to pay the sum in Bank of England notes, and, similarly, in France a debt can be discharged by paying the amount in notes issued by the Bank of France. But the notes which are issued by private banks are not a legal tender. These State banks are subject to certain restrictions, which vary in different countries. Our own bank is regulated by the Bank Charter Act, the provisions of which we shall hereafter explain. It is only necessary here to state, that this Act provides securities that the Bank of England shall not issue notes beyond a certain amount, unless it possesses a corresponding quantity of gold to provide for their payment. Although a Bank of England note is as legal a tender as gold coin, yet our currency is said to be convertible, because the Bank of England is bound, if the demand is made upon it, to give gold in exchange for its notes. But the currencies of some other countries are inconvertible, and when this is the case, no one has a right to demand coin in exchange for bank notes, although they may be a legal tender.

or private  
 banks.

But besides the notes which are issued by the Bank of England, private banking firms are allowed to issue notes under certain conditions. A moment's consideration will show, that a bank note, whether issued by a State establishment or by a private firm, is simply a convenient form for bringing into practical use the credit which may be possessed by the bank. All those who place perfect confidence in the solvency of a particular banker will be willing to accept his notes. A banker therefore, whose credit is good, can circulate a great number of his notes in his own neighbourhood, his notes being willingly accepted

by those to whom he is known; such notes however are not convenient for payments which have to be made at a distance, to those to whom the banker is a stranger. The notes of private bankers are never made a legal tender, and if the notes are presented for payment at the bank from which they are issued, it is compulsory that either coin, or notes which form a legal tender, should be given in exchange for them. It is, however, manifestly to the advantage of a banker to issue notes; for suppose 60,000*l.* of these notes are kept in circulation, it is ascertained, by experience, that an amount of legal tender equivalent in value to one-third of the notes issued will be sufficient, if kept as a reserve, to meet all the notes which are presented for payment. A banker, therefore, whose notes circulate to the extent of 60,000*l.*, has 40,000*l.* at his free disposal, to place in some profitable investment.

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It is hardly necessary to describe a cheque. Individuals deposit money with bankers for purposes of convenience or safety, and of course they can withdraw any portion of this money when they have a payment to make. But if A wants to pay B 1000*l.*, A does not first withdraw 1000*l.* from his bank and pay the amount to B, who would then probably deposit the amount received, in the bank with which he might happen to do business. A much more convenient course is adopted: A, instead of paying the money to B, gives him a cheque, which is simply an instruction to A's banker that the amount stated in the cheque should be paid to B when he demands it. A is thus saved the trouble of withdrawing money from his bank, and B is also saved the trouble of sending so much money to his bank, for now he has only to transmit the cheque to his banker, who will place the amount to his account, B's banker taking the trouble of getting the cheque paid by A's banker. The trouble of doing this, however, is very small, for cheques will be drawn upon

*Use of  
cheques.*

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B's banker, and in this manner the cheques drawn upon one bank are exchanged for those drawn upon another. This exchange is daily carried on, in London, at an establishment called the Clearing House, and it has been calculated that more than 1,000,000,000*l.* of cheques are annually exchanged in this manner, whilst, in order to effect the exchange, there is only required an amount of specie not exceeding 200,000*l.*

*Credit is to some extent a substitute for money.*

We have now described the chief forms which credit assumes, and it will be perceived that bills of exchange, bank notes, and cheques perform many of the functions of money. Credit, therefore, considered in this aspect, may be regarded in a certain degree as a substitute for money. We are thus led to the main subject of enquiry in this chapter, which proposes to investigate the influence produced by credit on prices. We will commence this investigation by explaining the manner in which bills of exchange, bank notes, and cheques respectively perform the functions of money.

*The functions of money may be performed by bills of exchange.*

Although, in the wholesale transactions of commerce, commodities are almost invariably sold for money, yet it very rarely happens that any money is interchanged between the buyer and seller. In such transactions, bills of exchange provide a ready substitute for money, and it frequently happens that the same bill of exchange supplies a substitute for money in many transactions besides the original one which first called the bill into existence. We have already said that bills are often almost covered with endorsements before they are finally presented for payment. If, for instance, B receives from A a bill for 1000*l.*, B may endorse this bill, and with it purchase commodities to the value of 1000*l.* from C. C in a similar way may again endorse the bill, and with it purchase goods from D, and the same process may be continued any number of times. But when this is done, it is manifest that the bill is as efficient in its purchasing power, or, in other words, exerts

the same influence in buying and selling, as if A paid B a thousand sovereigns instead of the bill, and B purchased goods from C with this money instead of paying C for the goods by means of the bill. As long therefore as this bill is kept in circulation, it provides a substitute for an equivalent amount of money; for if bills were not used, and if no other substitute for money were provided, it is manifest that, when commodities were bought and sold for money, the money must be forthcoming. In discussing the laws of price, we established as a principle that general prices depend upon the quantity of money in circulation compared with the wealth which is bought and sold with money, and also upon the frequency with which this wealth is bought and sold before it is consumed. If more wealth is produced, and an increased quantity of wealth is also bought and sold for money, general prices must decline unless a larger quantity of money is brought into circulation. Suppose, for instance, that the production of every kind of wealth is doubled in this country, and that every one doubles his purchases of commodities, and, at the same time, there is no increase in the amount of money in circulation. Upon this hypothesis, each individual, although he is supposed to purchase twice as much of every commodity as he did before, will only possess the same amount of money with which to effect these purchases. He will, therefore, be only able to give the same amount of money for double the quantity of each commodity he purchases; but this is tantamount to saying that general prices will decline one half. In fact, if there should be an increased production of wealth, if there should be more buying and selling, or if any other circumstance should occur the effect of which is to require the circulation of a larger amount of money, the value of money must rise, or, in other words, general prices must decline, unless an increased supply of money is forthcoming, so that a larger amount may be brought into circulation. When buying

*As wealth increases, prices tend to decline; but this tendency is stopped by the use of bills.*

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and selling is effected by bills of exchange, the necessity for money is as completely dispensed with as if the transaction was carried on by barter, and therefore those trading transactions in which bills of exchange are employed may be also almost indefinitely extended without rendering it necessary to bring an increased amount of money into circulation.

*If bills were not used, the money in circulation must increase, or prices decline;*

Again, we may look at bills of exchange from a different point of view, and consider what would be the result if they did not exist. Suppose that all the commodities which are now bought and sold by bills of exchange were paid for by money; a largely increased amount of money would be required to be brought into circulation, and if this additional supply was not forthcoming, money would consequently rise in value, or, in other words, general prices would decline. Hence bills of exchange, in many classes of transactions, are a convenient and complete substitute for money, and consequently, if it were not for bills of exchange, one of two things must happen. Either the money in circulation must be increased, or the money already in circulation must become more valuable, because a greater amount of money will be required to carry on the trade and commerce of the country; but to say that money becomes more valuable is equivalent to stating that general prices decline.

*hence prices are not affected by bills, but by the credit which they imply.*

It therefore appears that we cannot, by a simple negative or affirmative, answer the question whether an increased issue of bills of exchange affects prices. All that we can say is this—If the buying and selling which is now carried on by bills of exchange was effected by money, then one of two things must occur—either more money must be brought into circulation, or general prices must decline. The influence, however, which is exerted upon prices by bills of exchange is not due to anything peculiar in the nature or form of a bill of exchange, for it is not the bill which produces the influence, but the influence is produced

by the credit which is given ; and the bill is not this credit, but simply a testimony or record of its existence. This is a fact which it is most important to bear in mind. Let us, therefore, make a few remarks upon it. It is well known that buying and selling may be carried on by book credits, instead of by bills of exchange. Suppose A sells B a cargo of coals for 1000*l.* ; A, instead of receiving a bill of exchange from B, may debit him with the amount in his ledger. Let it be also assumed that A buys a quantity of coal for 1000*l.* from a third person C, and that C again buys 1000*l.* worth of timber from B. Then A appears a debtor for 1000*l.* in C's ledger, and C appears a debtor for 1000*l.* in B's ledger. Payment will therefore be made by cancelling each debt, for A will cancel B's debt, if C will cancel A's, and this of course C will be willing to do if B will cancel C's. In this case, although the buying and selling is nominally made for money, yet the resort to book credits enables money to be as completely dispensed with as if bills of exchange had been used ; it is therefore credit, and not the particular form which credit may assume, that enables money to be dispensed with, and consequently produces an influence on prices.

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*The same effect might be produced by book credits,*

Bills of exchange are, however, more potent in their influence on prices than book credits, simply because bills of exchange facilitate credit, and call a vast amount of credit into action which would never be given if book credits were always adopted instead of bills of exchange. For instance, if A receives from B a bill of exchange for goods sold, then A has the power of increasing his credit by means of this bill, for he can actually convert the bill into money, or he can purchase commodities with it ; but if A, instead of receiving a bill from B, simply has a register of his debt in his ledger, he would have no means of buying or selling by means of this book credit.

*but not to so great a degree.*

Although in many transactions bills of exchange provide *Bank notes*

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*are a still  
more  
powerful  
instrument  
of credit.*

a perfect substitute for money, yet bank notes seem more completely to perform all the functions of money; and we will therefore next proceed to enquire into the influence exerted upon prices by credit when in the form of bank notes. A bank note is a far more complete substitute for money than a bill of exchange, because a bank note is used in those cases in which money would necessarily be employed, if bank notes did not provide a substitute. The transactions, however, which are effected by bills of exchange might, as we have seen, be often performed by book credits. Bills of exchange are seldom used, except in the wholesale transactions of trade and commerce, but bank notes form a part of the ready money which a man keeps in his possession, to supply the ordinary wants of life. If, therefore, we consider that an amount of coin equivalent to one third of the bank notes issued is kept by the bankers as a reserve, it is manifest that each bank note which is in circulation enables an amount of money to be dispensed with equivalent in value to two thirds of the sum which the note represents. The bank note circulation of Great Britain varies between 30,000,000*l.* and 32,000,000*l.* If we suppose it is 30,000,000*l.* sterling, we may approximately say that, in consequence of bank notes, a substitute is provided for 20,000,000*l.* of coined money. We may express the same proposition in different words, and state that, if no bank notes were in circulation, we should require 20,000,000*l.* more money to be coined; if it were not coined, money would become scarcer, or, in other words, general prices would decline.

*The effect  
of largely  
increasing  
the bank  
note circula-  
tion  
would vary  
under dif-  
ferent cir-  
cumstances.*

But it may be asked, What would be the effect upon prices if the bank note circulation were suddenly increased? This suggests one of the most disputed of the currency questions. As we have before said, the bank note circulation of England is placed under various restrictions, the nature of which will be presently detailed. The purpose we have in view, at this stage of our inquiry,



is to investigate the effect which would be produced on prices if the bank note circulation was largely increased by a removal of all restrictions which now limit its amount. Now, we conceive that the effect which would be produced entirely depends upon circumstances. Let us suppose that there is no change in the population, or the commercial condition of the country. If, under these circumstances, an increased issue of notes was added to the money circulation of the country, prices would manifestly rise, because there would be now more money in circulation to carry on the same buying and selling as was previously conducted by a smaller amount of money. If, however, the additional notes which are issued simply cause a corresponding amount of bullion to be withdrawn from circulation, it is manifest that no effect is produced on prices, and the only result is, that the trade of the country is carried on more economically, because these notes, which are simply pieces of paper of no intrinsic value, perform with equal efficiency all the purposes which were previously fulfilled by the gold, which is now supposed to be dispensed with. Consequently, the economy of this substitution is evident; gold is a valuable commodity, requiring much labour and capital to obtain it. We therefore have the following principles to guide us in an enquiry into the effects of a bank note circulation.

1st. If bank notes simply occupy in the monetary circulation of the country the place of a corresponding value of bullion, these notes produce no effect on prices.

2nd. If it can be shown, that either by the repeal of the Bank Charter Act, or by any other cause, the bank note circulation of the country can be increased without withdrawing from circulation a corresponding amount of bullion, it is manifest that the aggregate money circulating in a country will be augmented, and general prices will, as a consequence, undoubtedly rise.

*The important question is whether they displace an equal amount of bullion, or increase the whole circulation.*

Although a cheque is not so complete a substitute for *Cheques are*

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*a less complete substitute for money.*

money as a bank note, yet cheques often provide facilities for dispensing with money which are possessed by no other instrument of credit, except a bank note. We have already explained in what manner cheques render the employment of money unnecessary, and we have stated that the returns of the Clearing House show that payments to the amount of more than 1,000,000,000*l.* sterling per annum are made by means of cheques, without requiring more than 200,000*l.* of specie. There can be no doubt that, if it were not for cheques, the great majority of these payments must be made by money, and in that case the money circulation of the country would have to be increased to a corresponding amount. If it were not so increased, a greater amount of buying and selling would have to be performed by the money circulation which a country possessed, and this is equivalent to saying that general prices would decline.

*Credit exerts a more powerful influence on prices*

We have now investigated one part of the influence which is exerted by credit on prices, but it must be borne in mind that credit exerts upon prices another distinct kind of influence, which has as yet been scarcely noticed. Hitherto, in this chapter, we have confined our attention to those effects on prices which are due to the circumstance that credit supplies, when in the form of bank notes, bills of exchange, or cheques, a substitute for money, more or less complete. But by far the most powerful influence exerted by credit on prices is caused by increasing the purchasing power of the country. If it were not for credit, the demand for commodities would frequently be much less than it is. In fact, when credit is freely given, the demand for a commodity may increase without any assignable limits; and when the demand is so stimulated, prices may temporarily rise in a very striking manner. We lay particular stress upon the word temporarily, because we have often repeated that the price of all commodities, except those whose supply is absolutely limited, must always in the long run be regulated by their cost of pro-

*by increasing the purchasing power of the country.*

duction. But although cost of production determines a point towards which the prices of commodities must ultimately have a tendency to approach, yet the prices of commodities may temporarily either very much fall short of, or be greatly in excess of, their cost of production. As we have before said, these variations in price are due to sudden fluctuations in the demand and supply of any particular commodity, and nothing is more efficient in producing these fluctuations than the existence of an extended system of credit. If no credit was given, and if everything was consequently paid for by money directly it was purchased, there would be little speculation; commodities would generally be bought as they were wanted; everything connected with trade would be regular and uniform, and there would be no great variations in the demand. We know that this regularity in demand occurs with regard to those commodities which are not, from their nature, bought upon credit for speculative purposes, and the price of such commodities never deviates much from their cost of production.

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*Variations  
in price are  
produced  
by credit,*

As an example, bread is a perishable article; it is bought to be immediately consumed, and of course no one uses his credit to accumulate large stores of bread; hence the price of bread is always regulated by its immediate cost of production. The price of bread of the same quality is uniform throughout large towns and districts, and if the cost of producing a loaf of bread is slightly lessened by a fall of 2s. a quarter in the price of wheat, the effect of this is at once shown by a corresponding fall in the price of bread. On the other hand, many commodities, such as wheat, are largely bought on credit for speculative purposes, and are consequently subject to the greatest fluctuations in the demand. Suppose some event occurs which forbodes a coming war; merchants may then think that, if the war takes place, our supplies of various commodities will be greatly diminished, and they therefore at once commence to make

*and are  
great in  
articles  
bought for  
speculative  
purposes.*

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*Example of  
tallow in  
the Russian  
war.*

speculative purchases. Every man can use his credit as a purchasing power; if he exerts his credit to purchase a commodity, he of course assists in increasing the demand for it. When the first rumours arose in 1854 of coming hostilities with Russia, large speculative purchases of tallow were made, because it was thought that all importations of that commodity from Russia would be stopped. The merchants who speculated in tallow employed their credit; they did not withdraw their capital from profitable undertakings in which it might be invested, for the purpose of purchasing this tallow; they simply employed their credit in the form of bills of exchange, and paid for the tallow by these bills. They no doubt intended, either to re-sell the tallow before the bills fell due, or, if they did not do this, they would probably pay a certain sum for permission to renew the bills from time to time. If a commodity in which speculation thus takes place does not rise in price as anticipated, many of the speculators are sure to be unable to meet their credit engagements, and a commercial crisis inevitably ensues. Each commercial crisis affords the most striking instances of the wonderful extent of an individual's purchasing power, when he brings his credit into full activity. Mr. Mill refers to a very remarkable speculation in the tea trade, which is described in Tooke's 'History of Prices.' We will give a brief summary of some of the facts, which are very instructive.

*Tea in the  
war with  
China.*

It was expected, in consequence of our dispute with China in 1839, that there would be a rise in the price of tea. Many retail grocers were therefore extremely anxious to lay in a stock of tea, and they accordingly commenced making speculative purchases. One grocer is particularly mentioned who had a capital of 1200*l.*, all of which was locked up in his business. If, therefore, he wished to purchase tea and pay for it by money in his possession, he probably would not have been able to lay out more

than 100*l.* But he adopted a different course, and employed his credit to its full extent as a purchasing power. He ordered chests of tea from every wholesale tea merchant with whom he was accustomed to deal; they did not think of consulting each other, and had therefore every reason for supposing that the tea which he thus purchased was required for the legitimate purposes of his trade. He, probably following the custom of his trade, gave bills due at three months. Before, however, these bills fell due, tea had risen in price, and he was therefore enabled to realise considerable profits. Now it will be observed, that here was a grocer in a small way of business, who purchased large quantities of tea, and who therefore exerted an influence in increasing the demand for it without employing a single farthing of money, either in the form of coin or bank notes. The profits which the grocer, in the first instance, thus realised, he applied in the following manner to extend his speculations. If a grocer buys tea upon credit, it is customary that he should deposit as a security 2*l.* upon each chest of tea purchased. The realisation of profit in the first instance enabled the grocer to pay this deposit, and his speculative dealing rapidly expanded. A few cargoes of tea, however, unexpectedly came to London, having sailed before the Chinese ports were closed; a sudden fall in price took place, the grocer could not meet his engagements, and in the course of his examination as a bankrupt it was shown that he had purchased 4000 chests of tea at a cost of 80,000*l.*, the loss upon which was 16,000*l.* In this case, therefore, a comparatively poor man was enabled, by using his credit as a purchasing power, in a short time to buy 80,000*l.* worth of tea. Many others adopted the same course, and every grocer in the country might have employed his credit in a similar manner. It is, therefore, almost impossible to assign any limit to the rise of price which may take place when the demand for commodities is stimulated by purchases made

*Immense purchasing power produced by credit.*

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upon credit. The rise, as we have before said, was only temporary, for directly a panic commences credit is as sparingly allowed as it was before recklessly given, and prices rapidly fall, and they often sink as much below that position of equilibrium which is determined by cost of production as before they went beyond it.

*The supposition that bank notes are the most efficient purchasing power gave rise to the Bank Charter Act.*

It must be evident, from the examples we have given, that every contrivance which facilitates the employment of credit as a purchasing power increases the influence of credit on prices. Many people believe that bank notes are more efficient as a purchasing power than any of the other instruments of credit, and since they hastily conceive that commercial panics are caused by a reckless employment of credit, they therefore conclude that restrictions upon the issue of bank notes provide the best remedy for the prevention of panics. These opinions prompted the passing of the Bank Charter Act. This Act was introduced, and carried by the late Sir Robert Peel in 1844; its leading provisions admit of a brief and simple explanation. The main object of the measure was to restrict the issue of bank notes, and it was therefore enacted that the Bank of England should not be permitted to issue notes beyond a certain amount unless a corresponding amount of specie or bullion was retained by the bank. The limit thus fixed was 14,000,000*l.*, it being thought that the funds, and various other property which the bank might possess, would provide a sufficient security to meet an issue of 14,000,000*l.* of notes. The bank was, however, compelled to keep in its possession specie exactly equivalent in value to every note that was issued beyond 14,000,000*l.* If, for instance, the Bank of England note circulation is at any time 18,000,000*l.*, the bank is compelled to retain in its coffers 4,000,000*l.* of bullion or specie. In order that the public may feel sure that this obligation is faithfully obeyed, the bank is compelled to publish in the 'London Gazette,' a weekly statement of its accounts; this statement

shows at a glance what is the specie reserve at the bank, and what also is its note circulation. The Bank Charter Act also provided that no banks which might be established after the passing of the measure should be permitted to issue their own notes, and the old banks were not allowed to increase the issue of their own notes. High financial authorities, however, fundamentally differ as to whether this Act has the power of doing what it was intended to effect.

Many people suppose that the Act secures the convertibility of our paper currency, but this is entirely erroneous, for if the Act were rescinded to-morrow it would still be as obligatory on the Bank of England as it was before to give specie for every note presented to them, if the demand was made upon them to do so. The Act compels the bank to keep a certain amount of bullion or specie to meet these demands, but this obligation need scarcely be enforced in order to preserve the solvency of the bank, for the remarkable prudence and wisdom which distinguishes the management of that institution would always be an adequate guarantee that sufficient bullion and specie would be voluntarily retained by the bank to meet the demands made upon it. But those who most strongly support the Act base their advocacy not upon any security which is provided for the solvency of the bank, but upon the restriction which the act imposes upon the unlimited issue of bank notes. These persons maintain, that during a period of active speculation, the bank, if left uncontrolled, might most powerfully stimulate credit, by large issues of bank notes, and thus contribute to force up the prices of various commodities to an unnatural point; the phenomenon which, as we have before said, always accompanies a commercial crisis. There can, however, be no doubt that the credit purchases which are made in times of active speculation are rarely, if ever, effected by means of bank notes; bills of exchange and book credits are the instru-

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*The Act was not wanted to secure the convertibility of the bank note,*

*but to prevent prices being raised by an undue issue of bank notes.*

BOOK III. CH. XI. ments of credit which are almost invariably employed.  
 For instance, the retail grocer who in 1839 was enabled to purchase 80,000*l.* worth of tea, although he only possessed a capital amounting to 1200*l.*, all of which was locked up in his business, never thought of employing bank notes. The Bank Charter Act did not then exist; the bank was perfectly free to issue as many notes as it pleased, yet it was just as difficult for this grocer to obtain bank notes on credit as it would have been for him to have borrowed money. It would, therefore, have been impossible for him to have speculated to any considerable extent if he had used bank notes, instead of either bills of exchange or book credits. It thus appears that, at any rate in the primary stages of speculation, credit engagements are as freely entered into, whether the issue of bank notes is restricted or not.

*This can be done without bank notes*

*in the first stages of speculation.*

*The Bank Charter Act comes into operation at a later period.*

It is, however, maintained that the Bank Charter Act comes into operation in the later stages of speculation, for after these credit purchases have been continued some time many find it difficult to meet their engagements, bills begin to fall due, and an anxiety is shown to get them renewed. This, therefore, is the time when the bank is pressed to discount bills; large amounts will be willingly paid for accommodation, and the rate of discount consequently rapidly rises. This rise in the rate of discount affords the bank an opportunity of realising large profits, if freely permitted to issue an unlimited amount of bank notes. But the Bank Charter Act effectually restricts the amount of accommodation which the bank can give, for it cannot issue notes without purchasing an equivalent value of bullion, and if compelled to do this, the profit of the transaction is of course destroyed. In 1848 and in 1857,

two panics which have occurred since the passage of the Bank Charter Act, the pressure upon the bank's accommodation was so severe that the Act had on both occasions to be temporarily repealed. By adopt-

*Per  
me  
at*



ing this course, the pressure was immediately relieved. The failure of those was not prevented who had speculated recklessly and unfortunately, but the increased accommodation which the bank was enabled to give saved many firms, who were not only solvent but wealthy, from succumbing under the sudden contraction of credit which is sure to accompany every panic. If, therefore, this relief had not been provided, many would have been ruined without any fault of their own; for even the most prudent firms in this country conduct their business upon a system of credit; they pay for the goods they purchase by bills, and they are justified in assuming that, if they wish it, these bills will be renewed, or advances will be made to them by their bankers, unless some very exceptional circumstances should occur. The credit of a firm may perhaps be partly based upon the possession of property, and in ordinary times there is no difficulty whatever in immediately obtaining money upon this property to almost the full extent of its value. However, in the general course of commerce a merchant is seldom required to settle any of his transactions by money, for he both pays and receives bills in almost all his transactions. But, in a commercial panic, there is a complete collapse of credit; bills which were renewed before will not be renewed now unless some ruinous premium is paid amounting perhaps to ten, twelve, or fifteen per cent. A general feeling of distrust and insecurity is prevalent throughout the commercial world, and consequently no one will, if he can avoid it, accept anything but money in payment of the debts that are due to him. All the usual sources of accommodation are closed. Banks can no longer afford to make advances, for the pressure upon them is particularly severe, since their customers hastily withdraw their money which may have been left on deposit. During a commercial panic there is a dearth of the legal currency of the realm; in fact, this must be so, because when credit collapses payments have to be made in

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*Importance  
of the  
relief  
afforded by  
this repeal.*

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money which were never paid in money before; consequently a largely increased supply of money is temporarily required, and if it is not forthcoming, money must obtain a scarcity value, just in the same way as the value of any other commodity would be affected if the demand for it were suddenly and largely increased.

*The relief was afforded with remarkable ease.*

None of the ordinary substitutes for money, such as bills of exchange, will suffice to relieve this scarcity, because these substitutes are only instruments of credit, and the severity of the panic is due to a thorough collapse of credit. But Bank of England notes, if allowed to be issued, will afford relief, because as long as these notes are payable on demand, people are as willing to accept them as the current coin of the realm. Now it is very remarkable that, on both the occasions when the Bank Act has been suspended, relief has been afforded by an extremely small additional issue of bank notes. In 1857 this additional issue of notes did not exceed 1,000,000*l.* sterling; in a few days the majority of these notes were returned to the bank, and the circulation was again in its normal condition. The relief may, therefore, be really regarded as a mental remedy. When the Bank Act was suspended, people thought that there would no longer be a dearth of money; they were, therefore, no longer so desirous to receive every payment in money. Credit was thus again gradually given as before, and the bank was consequently not obliged to increase its issue of notes, since the cause no longer existed which had so stimulated the demand for money that it obtained a scarcity value.

*In the ordinary condition of trade the Bank Act is inoperative.*

When trade is in its ordinary condition, we believe that the amount of the Bank of England note circulation would be the same, whether the Bank Act existed or not. As long as bank notes are convertible into coin upon demand, the amount of bank notes which is kept in circulation is determined by exactly the same causes as those which regulate the amount of the copper and silver coinage.

Unless something new should occur, such as a change in the mode of conducting business, it would be impossible to keep in circulation double the amount of our present copper coinage. Bankers could not induce their customers to take copper instead of silver; when a tradesman draws from his bank the wages to pay his workmen, he takes just as much gold, silver, and copper money as he believes he shall require; the pence he only uses to pay odd sums, for he would never think of burdening one of his workmen with eighty-four cumbrous pennies, instead of paying him the amount in silver. Similar considerations apply to bank notes; for certain purposes they are extremely convenient. If a person who is travelling takes a considerable sum of money about with him, bank notes are particularly useful; they occupy so much less space, and are so much lighter than gold. But the repeal of the Bank Act would be as powerless to make an individual use bank notes in those cases where he now employs gold, as it would be to induce a man to use copper instead of silver money. We therefore conceive that, in ordinary times, the amount of the bank note circulation is entirely independent of the Bank Act; we also think that this Act exerts no influence in the first stages of a time of speculation.

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*The ordinary bank note circulation is not affected by the Bank Charter Act.*

When, however, continued speculation produces a commercial panic, it has been shown, on both the occasions when such a panic has occurred, that credit cannot be restored without a suspension of the Act. We therefore consider the act to be prejudicial in its effects. It is generally practically inoperative; it is true, that in a commercial crisis its effects are felt, but on such occasions its suspension has always hitherto become necessary. Nothing can be more unfortunate than these repeated suspensions; no one can tell from hour to hour what will be done, and yet every one is sure, that if the Act is suspended, an enormous revulsion will take place in the money market.

*Prejudicial effects of the Act.*

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The rate of discount in 1857 almost immediately fell from ten to four per cent. All this uncertainty increases the excitement and distrust which are sure to be too prevalent in a period of financial difficulty.

*Inconvertible bank notes.*

Inconvertible bank notes are the only other instruments of credit which it remains for us to notice. In our own country, every bank note can be immediately exchanged for coin. A private bank is obliged to give either Bank of England notes, or coin, for the notes which it issues; and the Bank of England is obliged to give coin in exchange for all its notes; our bank note currency is therefore said to be convertible. The currencies of some other countries are not in this position, and at the commencement of the present century our own Bank notes were not convertible into coin. From the year 1797 to 1819, cash payments were suspended in this country, or, in other words, during this time the Bank of England was permitted to issue notes without being obliged to give coin in exchange for them. At the present time the United States afford the most striking example of a large issue of inconvertible paper currency. The civil war which is being so vigorously waged in that country has severely tried the resources of the national exchequer, and it has been consequently attempted to meet the financial pressure by an issue of treasury notes, which may be regarded as bank notes not convertible into coin on demand. We shall presently consider some of the effects of this issue of treasury notes, and we shall trace its influence on prices.

*They may or may not be a legal tender.*

Before proceeding further with this subject, it is necessary to point out the very different consequences which follow, according as an inconvertible currency is or is not made a legal tender. If an inconvertible currency is made a legal tender, an opportunity is immediately afforded to a government to defraud its creditors to an unlimited extent, and the whole monetary arrangements of the country at once suffer a most disastrous disturbance. We have

already laid great stress upon the fact, that when a currency is convertible, the bank note circulation cannot be forced beyond its natural limits, because, if the bank note issue is unduly increased, the notes are sure to be almost immediately returned to the bank, in order to be exchanged for coin. But there is no practical limit to the issue of inconvertible bank notes, and this is especially the case if these notes are made a legal tender. A government may pay the interest of its debt in these notes. Government contractors may also have the debts due to them discharged in these notes; the contractors, for instance, who have supplied the Federal army with stores and provisions have been paid in this manner. In fact, so indefinite is the power of issuing inconvertible notes, that the American Government has been enabled in a few months to float 40,000,000*l.* of these notes, whereas the Bank of England notes in circulation does not exceed half this amount. Inconvertible notes will be as freely accepted as coin, if people have confidence that an inconvertible currency is only a temporary expedient, and that the government will take scrupulous care never to permit the issue of inconvertible notes to exceed an amount which can with certainty be ultimately redeemed.

It is, therefore, possible to conceive that exceptional circumstances may occur, during which an inconvertible currency may be issued, if kept within proper limits, without disturbing the finances of the country. For instance, there can be little doubt that the American civil war created a demand for a greater amount of money to be circulated in that country; more money was in fact required, because the raising of a large army, and supporting it in the field, would render it necessary to make many more payments in money. If the issue of an inconvertible currency in America had gone no further than to satisfy this demand for a greater sum of money to be brought into circulation, no one's confidence in the finan-

*Within certain limits they need not disturb the finances of the country,*

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*but if increased beyond those limits the circulation must be depreciated.*

cial credit of the government would have been shaken, and the inconvertible currency would have exerted no effect on prices. But the American Government has far outstepped these legitimate limits; the inconvertible notes continually accumulate, and the people, although buoyed up by an excitement engendered by the contest, are beginning to suspect that the government will never have the power, even if it has the desire, to redeem these notes. These notes therefore are now no longer willingly accepted, and the consequence is that they have fallen to a discount, or, in other words, gold has advanced to a premium. At the present time, gold is in America at a premium of thirty two per cent., consequently notes which represent 132*l.* will only exchange for 100*l.* of specie. It therefore follows, that the government, and all other individuals who now pay with these notes debts which were incurred before the currency was depreciated, virtually defraud their creditors of thirty two per cent. of the amount which in all equity is due to them. If the issue of these notes is continued, the depreciation of the currency is also sure to go on with steady rapidity, and it is quite possible that before long gold may advance to a premium of one hundred per cent.\* If, therefore, an inconvertible currency is made a legal tender, nominal prices may be forced up in proportion to the extent to which the currency is depreciated. Suppose, for instance, that the American Government wished to contract for a supply of rifles. A rifle manufacturer would say, I am perfectly willing to sell my rifles at 10*l.* each, but if I sell them to the American Government, I must obtain at least 13*l.*, for they will pay me in their depreciated currency, and 13*l.* in their notes is barely equivalent in value to 10*l.* in gold; the nominal price of rifles in

\* These predictions have been amply verified. The issue of inconvertible paper has been continued by the United States Government, and now, in the autumn of 1864, the premium on gold in that country is 120 per cent.

America would rise thirty per cent., in consequence of its depreciated currency, and the same would be the case with every other commodity.

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It cannot be said that any injury or injustice is done if inconvertible bank notes are not made a legal tender, although the issue of these notes may indicate a financial policy disastrous to a country. When these notes are not a legal tender, no one is obliged to accept them; if an individual does take them, and afterwards discovers that the government cannot meet its obligations, the loss which he suffers is as much his own creation as if he were to accept a bill of exchange from an insolvent trader. Such notes cannot exert the same nominal influence on prices as that which we have just ascribed to inconvertible notes when made legal tender. If inconvertible notes are not made a legal tender, there is no reason why prices should be estimated in them. Such notes would always serve as a barometer to measure the credit of a government, for as confidence in a government diminishes, these inconvertible notes would be constantly falling to a greater discount. The French Revolutionary Government of 1792 adopted the expedient of issuing inconvertible notes in the form of assignats, and they attempted to maintain the value of these assignats by assuring the people that they were the paper representatives of the confiscated landed property of France. But the value of an inconvertible note is not increased, although it is nominally issued as the representative of certain property, unless people can have an assurance that those people who hold these notes will have equal claim to the property, and that no more notes will be issued than will be equivalent in value to the property on which their security is pretended to be based. What would be the value of a mortgage on an estate, if the owner of it could create any number of mortgages, all of which should have

*If not made a legal tender no injustice is done, but the credit of the Government is destroyed by a large issue of them.*

**BOOK III.** an equal claim to the property? The French people soon  
**CH. XI.** showed that they placed no faith in these assignats, and they became so rapidly depreciated, that an assignat of 2000 francs was scarcely sufficient to purchase a cup of coffee.



## CHAPTER XII

## ON THE RATE OF INTEREST.

IN the minds of most people, every question concerning currency is so intimately connected with the rate of interest, that it will be advisable in this place to discuss the subject in a distinct chapter; and it is the more necessary that we should take this course, because the price of many kinds of property is directly regulated by the current rate of interest.

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*Rate of  
interest.*

It was observed, in our remarks upon profits, that gross profits are made up of the three following components:— First, insurance against risk; secondly, wages of superintendence; and thirdly, interest on capital. This last component may be regarded as a remuneration for saving. The amount of the last component may be estimated by the interest which can be obtained upon capital, when invested in securities, which, according to the general opinion of the community, involve no risk whatever. In our own country, this certainty against risk of loss is provided by the public funds, and therefore the interest which can be obtained on money, when invested in the funds, always affords a measure of the current rate of interest in this country.

*It may be  
measured in  
England by  
the price of  
the public  
funds,*

The price of funds varies slightly from day to day, and consequently the current rate of interest must also be subject to daily fluctuations. But although the current rate of interest is liable to these constant variations, yet through a long succession of years they are confined within

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*which is  
nearly con-  
stant,*

very narrow limits. The English Funds at the present time annually pay 3*l.* upon each 100*l.* of stock; when, therefore, Consols are at 100*l.*, the current rate of interest is three per cent. The lowest price which Consols have reached during the last twelve years has been 88*l.*; money invested in Consols at this price would pay an interest of about three and three-sevenths per cent.; and therefore, the current rate of interest, though subject to constant fluctuations, has not, when estimated in the price of funds, varied so much as half per cent. during twelve years.

*though dif-  
ferent from  
the rate in  
other coun-  
tries.*

In the language of every-day life, the current rate of interest is said to be determined, or rather to be denoted, by the price of money. If an individual, a company, or a foreign government, wished to obtain money from the loan market, they are obliged to pay a certain price for the use of it, in the same way as they would be if they purchased any other commodity; the price which is so paid is represented by the rate of interest which is promised by the borrowing party. Suppose the Russian Government cannot obtain a loan in our market under five per cent., whereas our own government can at the same time borrow money at three per cent., those who lend money to our government think that they incur no risk of loss, and therefore a remuneration of two per cent. is given for the risk which is supposed to be incurred when lending money to the Russian Government. With this remuneration for risk we are not concerned, when investigating the current rate of interest.

*The rate of  
interest is  
subject to  
small  
oscillations  
about a  
point.*

Now it is evident that there is some point which may be regarded as a position of stable equilibrium about which the current rate of interest in this country oscillates, for although varying from day to day, yet it always approximates to about three and a quarter per cent. This point, therefore, about which the oscillation takes place, may be regarded as the average or normal amount of the current rate of interest. We consequently must make two distinct

investigations. In the first place, we must enquire into the causes which determine the average current rate of interest, for the question may be naturally asked, Why should not the rate of interest fluctuate about either two or about four per cent., instead of keeping with so much constancy to about three and a quarter per cent. After having made this investigation, we shall then proceed to account for those small fluctuations in the rate of interest which are almost of daily occurrence. It would thus appear, if we adopt the language of the money market, and speak of the price of money instead of the rate of interest, that the laws which determine the price of money require the same mode of exposition as those which regulate the price of every other commodity. In the chapters on price it was explained, that the price of each commodity was subject to constant variations, which were caused by fluctuations in the demand and supply; but at the same time these variations always gravitated to a certain point, which is determined by the cost of producing the article, and which has been denominated by political economists, the natural price.

The first problem, therefore, which presents itself for solution is this, Why should the rate of interest in this country, upon the best security, be now always about three and a quarter per cent.? why should it not be either much more or much less than this—say, for instance, five per cent., or two per cent.? A century since, no money could be borrowed in this country, even by government, at less than five per cent.; whereas, in Holland, the government has frequently obtained loans at two per cent. The rate of interest is primarily determined by the capacity and desire the people of the country have to accumulate capital, compared with the demand which there may be for the capital which is so accumulated. Now, as we have before remarked, the amount of wealth which is saved will vary *cæteris paribus* with the rate of interest which can be

*The current rate of interest depends upon the accumulation of capital and its relation to the demands of borrowers.*

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obtained. If five per cent. was the current rate instead of three per cent., there would be a greater inducement offered to every individual to save, and consequently a greater amount of capital would be saved. But on the other hand, the demand to borrow capital varies inversely with the rate of interest, for there will be a greater demand to borrow when money can be obtained at three per cent., than when it is necessary to give five per cent. If, therefore, the rate of interest was five per cent., there might be an amount of capital accumulated more than sufficient to meet the demands of those who wished to borrow; if, however, the rate of interest was only two per cent., the demand of those who wished to borrow might far exceed the amount of capital to be lent. An adjustment takes place similar to that which regulates the price of commodities, for the rate of interest must ultimately settle down to such a point as will equalise the demand to the supply, or, in other words, the amount of capital accumulated must satisfy the demands of those who wish to borrow.

*Explanation of the difference between rates of interest in different countries.*

The principle just enunciated affords an explanation of the various rates of interest which prevail in different countries. The Dutch are more frugal in their habits and less expensive in their mode of living than we are. A less powerful inducement will therefore make them abstain from spending, and consequently two per cent. interest on capital may exert the same influence in causing the Dutch to accumulate as would be exerted upon the English by an interest on capital of three per cent. It therefore appears that the amount of capital accumulated, or, in other words, the current rate of interest which prevails through an average of years, may partly depend on national character. In countries where the government is unsettled and property insecure, the rate of interest is certain to be high, because under such circumstances it would be impossible to find any very secure invest-

ment, and consequently a portion of the interest received might always be considered as an equivalent for the risk of loss incurred, just in the same way as people of this country always expect to obtain a high rate of interest from hazardous speculations. In India, a high rate of interest has always prevailed, for there property has been insecure, the people being constantly pillaged by the native rulers who tyrannised over them. In a young prosperous colony such as Australia, the rate of interest is sure to be higher than in an old thickly peopled country like our own. In this case the high rate of interest is not to be accounted for, as in India, by a want of security with regard to property. We have already remarked, with reference to Australia, that a generally high rate of profit is sure to prevail when there is a plentiful supply of fertile land. But if the average rate of profit which can be realised in trade is high, the rate of interest must necessarily be also high. If farmers in Australia on the average obtain a profit of twenty per cent., whereas farmers in England only obtain a profit of ten per cent., an Australian farmer will pay a much higher rate of interest for capital which he might wish to borrow with a view to extending his business, than an English farmer could possibly afford to pay. Every circumstance therefore in a country which tends to raise the average rate of profit must also produce an increase in the rate of interest; and, on the other hand, the rate of interest will be lowered by every circumstance which tends to reduce the average rate of profit.

We have shown in a previous chapter\* that the average rate of profit rises or falls as the cost of labour is increased or decreased; it has been also explained that the cost of labour is less or greater according as food is cheaper or dearer; hence, a bountiful supply of cheap food,

*In Australia it is high because profits are high.*

*It will be affected by the cost of obtaining food.*

\* Chap. v. Book II.

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CH. XII.

whether imported from other countries, or obtained from our own soil by agricultural improvements, exerts a direct influence to raise the average rate of profit, and consequently to increase the average rate of interest. But in a country like our own, the rapid increase of population tends to make food become more expensive, and therefore the question, whether the general rate of profit, and consequently the average rate of interest, will decline as population advances, must be determined by considering whether agricultural improvements and foreign importations of food will suffice to meet the demands of a larger population without increasing the expense of obtaining food.

*The price of property often depends upon the current rate of interest.*

The price of many kinds of property directly depends upon the average rate of interest. Suppose from any circumstance such as the cheapening of food, or from the opening up of new and eligible investments for capital, that the rate of interest should rise throughout England, say from three to four per cent.; a corresponding decline must take place in the price of all such securities as the funds, railway debentures, and other investments, the interest upon which is fixed. The price of railway, mining, and other shares, would also decline; for the price of these shares is now so regulated by the general competition in the money market, that the dividends paid upon these shares must be sufficient, not only to return the interest given by investments which are perfectly secure, but, in addition to this, an adequate equivalent for the risk incurred. The price therefore of such shares must decline, if the rate of interest increases. The price of land would also be affected by either a rise or fall in the general rate of interest. In our own country, land is considered as secure an investment as Consols. There are many advantages associated with the ownership of land which are not enjoyed by a fundholder; the possession of land gives social position, and

political influence, and also affords an opportunity for enjoying the pleasures of a country life. Money invested in land does not return so large an interest as if it were invested in the funds, for the advantages we have just enumerated are considered to afford a compensation for the smaller interest received. If, therefore, the general rate of interest should rise, the price of Consols would decline, and the price of land would also decline, because land would be expected to pay a higher rate of interest than before.

When it is said that the price of land will decline with a rise in the rate of interest, it must not be supposed that land necessarily diminishes in value as the rate of interest advances. The particular influence which is exerted on the price of land by a rise in the rate of interest may be understood from the following simple example:—Let it be supposed that money invested in land ought to return the same interest as money invested in the funds; we may consider this interest to be at the present time three per cent. A landed estate, therefore, the nett income from which was 3000*l.* a year would sell for 100,000*l.* But the same estate, if the nett annual returns from it continued to be 3000*l.*, would only sell for 60,000*l.* if the rate of interest should advance from three to five per cent., and if people still expected to obtain the current rate of interest from money invested in land. Upon the hypothesis we have made, the price of this estate and all other landed property would decline forty per cent. if the rate of interest advanced from three to five per cent. It must, however, be borne in mind, that the causes which affect the average current rate of interest may also affect the returns to landed property, or, in other words, the rent of land. Our conclusion that the price of landed property would decline forty per cent. if the rate of interest advances from three to five per cent. is based upon the assumption that the rent of land

*The price of land will generally fall as the rate of interest rises,*

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remains unchanged; the current rate of interest, in fact, simply determines the number of years' purchase which land will realise. It may, however, be remarked, that most of the circumstances which produce a rise in the rate of interest will usually decrease the rent of land; thus, the rate of interest is raised by a diminution in the cost of labour; cheap food decreases the cost of labour, but when food is cheap, agricultural produce is also cheap, and farmers cannot pay so high a rent for the use of land. Again, if the rise in the rate of interest is not accompanied by any change in the price of agricultural produce, the farmer's profits will be the same as they were before; he will not, however, be satisfied with the same profits, because the average rate of profit throughout the country will rise if the rate of interest is increased, and his rent must consequently be reduced. It therefore appears that a rise in the rate of interest will generally reduce the price of land in two distinct ways; in the first place, as the rate of interest advances, the number of years' purchase which land will realise diminishes; in the second place, the causes which produce a rise in the rate of interest generally exert an influence to decrease the rent of land.

*and for two  
distinct reasons.*

*Causes  
which tend  
to keep up  
different  
rates of in-  
terest in  
different  
countries.*

A remark may here be made to meet a difficulty which may suggest itself to some of our readers. It may be asked, How can there be, with the keen competition of capital which distinguishes this commercial age, such a difference in the current rate of interest as that which we have described to exist in England and Holland? It might be thought that intelligent Dutchmen would place the same confidence in our funds as they would in their own government securities, and that consequently capital would be sent from Holland to be invested in our funds, instead of being employed there at a lower rate of interest. If the Dutch did this on a very large scale, the supply of capital would of course be diminished in Holland, and



there would cease to be any marked difference in the rate of interest prevailing in the two countries. But however active the competition of labour and capital may be, however keen and desirous traders may be to realise the largest profits, and labourers to secure the highest wages, yet the people of each community, more or less, restrict the range of competition to their own country. Patriotism has achieved many blessings for the human race, but it has isolated nations from each other, and placed a barrier of prejudice between them. The prospect of very slightly higher wages would tempt our more intelligent workmen from London to Scotland; but a far larger inducement must be offered to workmen in order to induce them to undertake a shorter journey: to cross the channel and to settle in France. As long, therefore, as these feelings continue, very different rates of wages may prevail in different countries. In a similar manner, although there is no doubt that capital passes more freely than labour from one country to another, yet the people of each country naturally feel more confidence in their own government than is felt by the people of other nations. Hence they are willing to accept a smaller rate of interest from their government than would satisfy foreign investors. The French people are more dazzled by the splendour of their present dynasty than we are; the French Government therefore announces a loan, and so great is the confidence of the French people, that even the peasantry bring forth their long-cherished hoardings, and the amount subscribed is far in excess of that required. Our people, who are not excited by the same feelings, show no anxiety to participate in these loans, and would rather receive a much smaller rate of interest in their own country. Hence it is evident that although capital is largely invested in foreign countries, yet people so highly appreciate the advantage of having their capital invested in their own country, that very differ-

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*Confidence  
felt by each  
people in  
their own  
government.*

BOOK III. ent rates of interest may prevail in two neighbouring  
 CH. XII. nations.

*Daily fluctuations in the rate of discount.*

We have now remarked upon the chief causes which determine the average rate of interest which prevails in different countries; it remains for us to explain those temporary variations in the rate of interest which are indicated by daily fluctuations in the price of funds, or by frequent alterations in the rate of discount. It has been stated, that the price of funds has not varied more than twelve per cent. during many years, consequently there is not more than about three-eighths per cent. difference in the interest which the funds pay when at their maximum, and when at their minimum price. But alterations in the rate of interest at different times would appear to be much greater, if they are estimated by fluctuations in the rate of discount. The rate of discount very frequently varies as much as one per cent. in the course of a week, and during a commercial crisis it has in a few months advanced from four to ten per cent. The rate at which the Bank of England discounts bills is termed the bank rate of discount, and this regulates the general rate of discount throughout the country. The bank could of course have no power to control the rate of discount, unless it carefully followed the wants of the money market; for if the bank rate of discount was higher than the rate at which other establishments could afford to discount bills, no bills could be taken to the bank to be discounted. If, on the other hand, the bank should discount bills at much lower rates than other establishments, every bill would be taken to the bank, and the bank would be virtually resigning a large amount of profit; for it could evidently charge higher rates, if other discount houses would not do business at these low rates. The bank rate of discount is usually fixed each Thursday, at the weekly meeting of the governors, and unless something very extraordinary occurs, it is rarely altered during

*Bank of England rate of discount.*

the week. The bank rate of discount also regulates the amount of interest which can be temporarily obtained upon money; for joint-stock banks, such as the London and Westminster, allow interest one per cent. less than the bank rate of discount upon all sums which are deposited with them exceeding 500*l*. The interest upon deposits, for instance, would be nine per cent., when in a commercial panic the bank note of discount was ten per cent.

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It may seem extraordinary that there should not have been a greater fall in the funds and other such securities, when bankers would allow interest at the rate of nine per cent. Why, it may be said, should any one have kept their money in funds or railway shares, which were only paying three or four per cent., when bankers would give nine per cent. interest? It must, (however, be remembered, that every one knows that the rate of discount would only remain for a very limited time at ten per cent.; it would rapidly, perhaps suddenly, return to its former amount; as the crisis subsides, the price of all securities would improve, and then those who sold their funds or shares to enjoy a temporary high rate of interest, would be obliged to repurchase them at advanced prices.

*Why the funds do not vary more rapidly.*

The frequent variations in the rate of discount are not due to any permanent causes, but rather depend on the amount of money floating in the loan market, compared with the amount required to support the various advances made, and the various engagements undertaken upon credit. The rate of discount would immediately rise if any event should occur which would cause an increased demand for specie. Suppose, for an example, that a prospect of war with China should induce our merchants to believe that we might for a time be shut out from commercial intercourse with that country; it so happens that a large proportion of the tea and silk we obtain from China is purchased by specie. If, therefore, there was a rumour of war with China, our merchants would at once send out

*Rate of discount depends upon the amount of money in the market at a given time.*

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large amounts of specie to China, for the purpose of purchasing tea and silk. These merchants would obtain this money by advances made to them on credit. If they had bills in their possession not yet due, they would immediately get them discounted; hence the demand for discount, or, in other words, the demand for specie, will be temporarily increased, and the rate of discount and the rate of interest will both rise. Any circumstance which causes credit to be restricted will at once produce an advance in the rate of discount, for the restriction of credit means, that people are more anxious to be paid in the form of money. There will, therefore, be a greater anxiety shown to convert all such instruments of credit as bills of exchange into money; the demand for money will increase, and the rate of discount necessarily advance.

*Summary  
of the re-  
sults ar-  
rived at.*

If, therefore, we summarise the results of this chapter, it may be stated, that the average rate of interest which prevails in any period depends upon the amount of capital existing in a country, compared with the various other circumstances which we have enumerated as affecting the economical condition of a nation. But those temporary variations in the rate of interest which are marked by almost daily fluctuations in the price of Consols, and in the rate of discount, are not determined by changes in the demand and supply of capital, in all the various forms in which it ministers to the production of wealth. These variations depend on the demand and supply of capital in one particular form, namely, money; for we have shown that a rise in the rate of discount is caused by an increased demand for ready money, usually resulting from a contraction of credit.

## CHAPTER XIII.

## THE TENDENCY OF PROFITS TO FALL AS A NATION ADVANCES.

IT has been incidentally remarked in the last and several other chapters of this work, that a high rate of profit is sure to prevail in young colonies which possess an abundant supply of fertile land. Moreover, the history of every progressive nation shows that the current rate of interest has gradually declined; it would therefore seem, that an advance in population and wealth is sure to be accompanied by a fall in the general rate of profit.

The explanation of the different rates of profit which prevail in the various stages of a nation's progress, suggests questions of as much practical and scientific interest as any that are discussed in political economy. It is somewhat singular, too, that these particular questions have perplexed many of the most eminent writers on this science; for instance, Adam Smith failed to give a correct solution of the problem here presented, and Dr. Chalmers, who is usually so clear, becomes inextricably confused when treating of the subject we propose to investigate in this chapter. These writers do little more than vaguely hint, that profits are reduced by the competition of capital, but they never state in precise terms the mode in which they conceive the competition of capital to operate in producing such results. They, however, probably thought, that competition of capital caused general prices to decline, and that general low prices produce a low average rate of profit. This is a fallacy which must be at once disposed of.

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*The tendency of profits to fall*

*has been often wrongly attributed to the competition of capital.*

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*High or low prices do not imply a high or low rate of profit.*

General high or low prices indicate nothing with regard to the average rate of profit. High prices simply show that money has a small purchasing power, and, on the other hand, low prices show that money has a large purchasing power. If, from the discovery of very rich gold mines, the cost of obtaining gold should be greatly reduced, gold might then decline in value one half, and if this should be so, the price of every commodity would be doubled. It would not however follow, that such a great rise in general prices would be accompanied by even the slightest alteration in the average of profit. In order to prove this, let us enquire in what manner the position of a manufacturer would be affected by such a change in the value of gold as that just supposed. If general prices were doubled, the manufacturer would be enabled to obtain double the price for his goods; but then it must not be forgotten, that the money cost of producing these goods would also be doubled, for he would be obliged to pay double the price for his machinery, and for the raw material. His labourers' wages must also be doubled, because now 5*l.* would only have the same power of purchasing commodities as 50*s.* had before. It is therefore manifest, that a general rise or fall in prices is solely caused by an alteration in the value of the precious metals, and, consequently, can have no effect in determining the average rate of profit.

*The rate of profit is primarily determined by the ratio in which produce is divided.*

In order that there should be no obscurity upon this subject, let us again impress upon our readers, that the rate of profit is primarily determined by the ratio in which any wealth which is produced is distributed between the capitalists and the labourers, who have contributed to its production. Unless, therefore, the amount of the wealth itself is increased, the share allotted to the capitalists can only be augmented by diminishing the share appropriated to the labourers. If, for instance, the employer's share is one third, the labourers' share will be two thirds, and if

the employer's profits should be increased, and his share should become one half, the labourers' wages must be diminished, for their share will be one half instead of two thirds. The proposition, though apparently so simple, is fundamental, and cannot be too carefully borne in mind by the reader.

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Adam Smith and Dr. Chalmers no doubt erroneously conceived, that the average rate of profit was lowered by the competition of capital, in consequence of misinterpreting certain phenomena which they observed. It constantly happens, that when the profits of any particular trade are exceptionally high, an active competition of capital immediately commences in the trade; every one is anxious to enjoy the largest possible share of these high profits. All those who are engaged in the trade bring fresh capital into it, so as to extend their operations; if, moreover, the high rate of profit continues for any length of time, many others will be tempted to engage in the business. This largely increased application of capital will sooner or later cause over-production; prices will then rapidly decline, and the profits realised in the particular trade will gradually sink to their former level. The competition of capital therefore does not produce a general low average of profit, it rather exerts an equalising influence, and thus prevents the profits of any particular branch of industry continuing permanently above the average rate. It is not the competition of capital, but the accumulation of capital, which affects the average rate of profit. This is a proposition which we will now proceed to establish.

*Phenomena which led Adam Smith to suppose that profits were lowered by the competition of capital,*

*instead of the accumulation of capital.*

We have already found it convenient to employ the expression, the effective desire to accumulate wealth. Now this effective desire is sure to increase with the social progress of a nation. The less civilised a people are, the less care will they have for the future; the more prudent a people are, the more desirous will they be to save wealth,

*The effective desire to accumulate wealth increases as a country progresses.*

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and thus accumulate capital. It is only the most backward tribes who do not make some provision for the future, and there is no doubt that a great amount of wealth would be saved, even if no profit could be obtained on capital. People would set aside something, in order either to make a provision for children, or to be prepared against old age, and such casualties as illness. But the great bulk of the capital of the country is saved for the purpose of obtaining a profit upon its investment. It therefore follows, that the amount of profit which is thus obtained primarily determines the amount of capital accumulated. It is, however, impossible to tell the exact ratio in which the amount of capital accumulated would increase or decrease with a rise or fall in the average rate of profit; all that can be said is this, that the wealth saved will be greatly diminished, if the current rate of interest on the best security should fall from three to one per cent. On the other hand, the accumulation of capital will of course be most powerfully stimulated, if new and eligible investments for capital should be opened up. It must, however, not be concluded, that if at some future day our government should be able to borrow money at one per cent., there would then be less capital accumulated than now. The reverse would assuredly be the case, because such a fall in the rate of interest would prove that the effective desire of the people to accumulate wealth had been much increased; in fact, their prudence would become so great, that then one per cent. interest would offer the same inducement to save as three per cent. does now.

Connection  
between the  
amount of  
wealth  
saved and

It would therefore appear, that the amount of wealth which is saved in a country at any particular time is partly the cause and partly the effect of the average rate of profit, for the greater the amount of the capital which is accumulated, the less *cæteris paribus* will be the average rate of profit; whereas, on the other hand, the less is the



average rate of profit, the smaller *cæteris paribus* will be the amount of capital accumulated. An adjustment takes place between these different influences; for it is evident, in the first place, that a certain average rate of profit results from a particular amount of accumulation, and secondly, the amount which is accumulated determines the average rate of profit. In each stage, therefore, of a nation's social and economical condition there must prevail a certain average rate of profit, this rate being adapted to the particular amount of capital which will be accumulated by the prospect of being able to obtain the rate of profit which is supposed to prevail. We are now in a position to investigate the general tendency of profits to rise or fall as a nation advances, for this can be conveniently done by considering the principal circumstances which accompany a nation's economical progress, and by tracing the effect of the circumstances upon the average rate of profit. When a nation is advancing, capital and population are sure both to increase. If the population increases faster than the circulating capital of a country, there will be a smaller proportionate wage-fund to distribute amongst the labourers, and their wages must inevitably decline. If this decline in wages is not accompanied with any diminution in the industrial efficiency of the labourer, a smaller sum of money will be paid for the same amount of labour, and it would therefore appear that profits must consequently be increased. If, on the other hand, the circulating capital increases faster than the population, wages must advance, and the profits of capital will be diminished. It might, therefore, seem that an increase of population tends to augment the rate of profit, and yet such a conclusion is apparently contradicted by experience; for in young colonies, whose fertile land is only partly occupied, a high average rate of profit has always prevailed; and, moreover, it may be observed, that profits decline as a country becomes more thickly peopled.

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*the rate of  
profit.*

*When a  
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All the phenomena which we have just described may be very simply explained.

*Food constantly requires more labour to produce it as a country progresses,*

.It has already been frequently affirmed, that in the absence of any counteracting circumstances, food requires more labour and capital to produce it, and, therefore, becomes more expensive as the wants of an increasing population render it necessary to resort to less fertile land. If food could be obtained in indefinitely large quantities without any increased cost, every advance in the population of the country would exert a direct influence to raise the average rate of profit. Now, in every old country the remuneration received by the worst-paid labourers may be regarded as the minimum wages, or, in other words, the least wages which will suffice to support the labourer. As an example of this, our own agricultural labourers may be cited, for every one who is acquainted with their condition must know that their wages could not be reduced, without depriving them of many of the first necessaries of life; such a deprivation would diminish their manual strength, and decrease the efficiency of their labour. The wages of the agricultural labourer in this country are barely sufficient at the present time to provide him and his family with the cheapest clothing, and the simplest food. Let any one take the average earnings of an agricultural labourer in the west of England, and let an estimate be formed of this labourer's expenditure. We have frequently done this, and it corroborates a fact we have often observed, that it is impossible for an agricultural labourer to eat meat more than once a week, and even then he is powerless to make any provision against old age or sickness. Let us enquire what will take place if population increases, and food becomes more expensive. We will assume, in order to illustrate our argument, that bread rises in price fifty per cent.; such an assumption is by no means imaginary, for within the last few years there has been in many districts in England a greater rise than this

*and thus the cost of labour increases.*

in the price of meat and dairy produce. Labourers would endure much suffering if they obtained less bread than they are now accustomed to consume; if, therefore, bread rose in price fifty per cent., it would be impossible for agricultural labourers to live on their present wages; their wages therefore must be raised, or, in other words, the cost of labour increases, if no counteracting circumstances intervene to prevent food becoming more expensive as population advances. Hence, in a country like England, which is advancing in population and wealth, two agencies are constantly exerting an influence to reduce profits.

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*Hence two causes combine to lower profits,*

In the first place, an increased population tends to make food more expensive, but if food becomes more expensive, the cost of labour is augmented, and this cannot happen without diminishing profits. In the second place, as a nation advances in wealth, the people become more prudent, a smaller return on capital will induce them to save, and consequently, a greater capital is accumulated in proportion to the profits which can be realised upon it. There can however be no doubt that many circumstances come into operation which act more or less powerfully to retard this fall in profits. Thus it should be borne in mind, that only a portion of the capital accumulated in England is invested in the country itself, either as circulating or as fixed capital. Our capital is freely invested in other countries, we subscribe to foreign loans, and by our aid many most important railways and other works have been carried out in every quarter of the world. As an example it may be stated, that of the 15,000,000*l.* which has been spent upon the Grand Trunk Railway in Canada, nearly the entire amount was subscribed by English shareholders. Every year the field for the investment of capital in foreign countries is rapidly extending, and it will continue to extend, as the barriers of prejudice are broken down between different nations, and as security of property is spread over a wider area. Now all this capital which is

*increased cost of labour,*

*and increased saving.*

*The effect of these causes is retarded by the exportation of capital.*

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accumulated, but is not invested in our own country, produces no effect, either upon the average rate of profit, or upon the wages paid to our labourers; and as the field for the investment in foreign countries may become of almost boundless extent, it is quite possible to conceive, that capital may continue to increase, even with greater rapidity than it has during the past few years, without causing any fall in the rate of profit. If, however, this outlet for our savings should be at any time partially closed, a great stream of capital would, as it were, be turned back upon England; the circulating capital of the country would consequently be greatly augmented; the wages paid to the labourers, and therefore the cost of their labour, would be greatly increased, and the rate of profit would rapidly decline.

*The decline of profits is also checked by agricultural improvements,*

We have now remarked upon the extent to which a fall in the rate of profit resulting from a constantly increasing accumulation of capital may be counteracted by the investment of capital in foreign countries. We will next speak of the principal circumstances which counteract the decline in profits, which will be sure to accompany an increase in population, unless supplies of cheap food can be obtained. Agricultural improvements, and the importation of food from countries less thickly peopled than our own, are the chief circumstances which enable additional supplies of food to be obtained without an increase in its cost. In the first place, with regard to agricultural improvements, there can be no doubt that superior methods of culture have largely augmented the average yield from each acre of land in this country, and this larger produce has been obtained with a less proportionate expenditure of labour and capital. We need only refer to two very prominent improvements, for it is well known that much comparatively unproductive land has been made to produce large crops of corn, by the cultivation of the turnip, and by the use of artificial manures. Improved implements

are every year introducing greater efficiency and economy into agriculture. Moreover, since the repeal of the corn laws, many million quarters of corn have each year been imported, and if our population is to continue to increase, the extra quantity of food required must be supplied by increased importations. If we were compelled to obtain from our own soil all the additional food which an increasing population would require, food would greatly rise in price, the cost of labour would be increased, and profits decline. It is, however, probable that the importation of corn might be in the course of a few years almost indefinitely increased, without any augmentation in its cost. Only a very small portion of the land which is adapted to grow wheat has ever yet been properly tilled, and railways and other means of communication will open up to us large corn-producing districts, from which before we have been virtually excluded. California has already sent us wheat, and the highest authorities have affirmed, that India, with good means of communication, could supply us with an almost unlimited quantity of wheat, at prices much lower than those which on the average of years prevail. Some articles of food are sure to become dearer as population advances; this is particularly the case with meat and dairy produce. These are perishable commodities, and cannot be sent from a great distance without considerable difficulty and expense. Although, therefore, some articles of food will become dearer as population increases, yet corn and other such products which can be readily imported might become cheaper. Improved processes of manufacture are constantly cheapening articles of clothing, and therefore the increase in the cost of the labourer's living, which we might expect would be caused by the augmentation in the number of the population, has been to a very great extent counteracted, and may continue to be so by the importations of cheap food, or by the cheapening of almost every article of clothing. Many political economists

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*The decline of profits has been actually checked in England.*

assume that profits must decline as a nation advances in population and wealth, but we believe the causes which produce this decline have been, in the case of our own country, counteracted during the last few years by those other influences to which we have just alluded. In corroboration of this opinion it may be observed, that England's progress during the last quarter of a century in population and wealth has been unprecedented, and yet there has been no decided fall in the general rate of profit.

*The 'stationary state'*

Those political economists who consider that a decline in the rate of profit must of necessity accompany an advance in population and wealth, frequently affirm, that material progress has very definite limits, and that the progress of each nation must, necessarily, sooner or later cease. It is, for instance, maintained, that if the rate of profit continues to decline, the returns to capital will, after a time, be so small, that no adequate inducement will be any longer held out for increased accumulation. Under these circumstances, capital will not be further increased, the rate of profit will have reached its lowest limit, and the nation then will arrive at what is called a stationary state. A stationary state is of course a possible contingency for any progressive country, and there can be no doubt that England might soon be in this condition if those causes which we have enumerated, as tending to keep up the rate of profit, ceased to act for any length of time.

*seems to be less probable now than formerly.*

But we think, with regard to almost all countries, that the stationary state was much more likely to be attained fifty years since than it is now. During the last century, the Dutch frequently lent money to their government at two per cent.; this indicates a much lower rate of profit than has prevailed in any European country for many years past. Holland in the last century had no doubt very nearly approached the stationary state. But the general condition of Europe was then so disturbed, that completely little capital was sent from one country to

another for the purpose of being invested; hence, nearly all the capital which was accumulated by the thrifty Dutch had to be invested in their own country, and the result of this was that the rate of profit which prevailed was so low, that no sufficient inducement was offered to increase the amount of capital accumulated.

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There are many other modes in which capital is absorbed, besides those which we have enumerated; for instance, the conversion of circulating into fixed capital tends to keep up the average rate of profit. During the first years of the great railway extension in this country, the average rate of interest undoubtedly rose; there was a great demand for capital, and the tempting speculations which presented themselves induced many to withdraw capital from business, and embark it in railway undertakings. But when, by the conversion of circulating into fixed capital, the wage fund of the country is diminished, the cost of labour is decreased, and an influence is thus exerted to raise the rate of profit. Such diminution in the wage fund is by no means hypothetical; the wages of labourers have often been for a time decreased by the sudden conversion of a large amount of wealth into fixed capital, either in the form of railways, machinery, &c. The injury to the labourers, it is true, is only temporary, because machinery and useful public works greatly augment the productive resources of the country, and rapidly create a larger fund, from which future capital may be accumulated.

*The conversion of circulating into fixed capital tends to keep up the rate of profit.*

Some people have considered that the average rate of profit is kept up or is prevented from falling by the destruction of capital, which always takes place in those commercial panics which seem to recur with periodic regularity. The phenomena which accompany these crises give colour to this opinion. In consequence of the increasing accumulation of capital the money market is at length said to become glutted with capital seeking for investment; it

*A commercial crisis may tend to keep it up by the destruction of capital.*

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are freely offered, and the rate of interest declines. In such a state of things any undertaking which offers a prospect of unusual gain is eagerly supported; a speculative feeling is thus engendered, the excitement quickly blinds men's judgment, all kinds of fictitious schemes are brought forward, and capital is recklessly subscribed to carry out unprofitable undertakings. Directly the mania begins to subside the losses of individuals become revealed, and it is discovered that immense sums of capital have been wasted; the surplus capital which was floating in the money market has been destroyed, capital becomes scarcer and the rate of interest rises. Hence, no doubt, a commercial crisis produces a considerable effect in the rate of profit by absorbing, or rather by destroying capital; but it is to be doubted whether the influence thus exerted is so powerful as that which is produced by those other circumstances which we have already described as sustaining the average rate of profit.

*The high rate of profit which prevails in Australia explained.*

We shall further illustrate the general remarks which have been made in this chapter by applying them to explain the high average rate of profit which prevails in a young colony such as Australia. The material condition of a country in the position of Australia, is characterised by an abundance of fertile land and by a scarcity of capital and labour. The economy, therefore, of an old country like England affords a direct contrast; for in England fertile land is scarce, and labour and capital are both abundant. When fertile land is plentiful, food is sure to be cheap, and this will be especially true with regard to those kinds of food which require little labour for their production. For instance, immense flocks of sheep have been fed on the pastures of Australia entirely for the sake of the tallow and wool. The meat of these sheep was of no value whatever, until the gold discoveries brought a sudden accession of population; for previously there were not enough people in Australia to consume even a small



portion of the mutton that was annually killed. Wheat, however, was not relatively so cheap as mutton, because the cultivation of wheat requires considerable capital and labour. Labour was, however, scarce, and the imple-  
ments of agriculture were expensive. Although labour and capital may be both scarce in such a country as Australia, yet it is evident that the returns to this labour and capital, if applied to cultivate the soil, must be extremely great when it is remembered that in such a country even the most fertile land can be obtained at a merely nominal price.

Now the industry of a young colony is sure to be almost entirely confined to agriculture, for the great abundance of fertile land at her command gives her superior advantages in comparison with older countries. On the other hand, it is impossible for a young colony to compete successfully in manufacturing industry; she does not possess the appli-  
ances which manufacturers require, the machinery would have to be imported, and labour would be more expensive. Our operatives would not, of course, emigrate to Australia unless they expected to obtain higher wages. The same considerations apply in a somewhat modified degree to mining industry; the gold mining of Australia is an exception to this, because comparatively few countries produce gold, and therefore Australia has little competition. But in the case of such minerals as copper, which are produced both in England and Australia, it is impossible for Australian copper mines to compete against English copper mines, unless the former are far richer than the latter. Labour and machinery are so expensive in Australia, and the cost of bringing the ore from the mine to the coast is so great, that many a copper mine which is unprofitable in Australia would be a source of enormous wealth if it could be transferred to England.

*Reason why in a young country agriculture and mining are more flourishing than manufactures.*

We may, therefore, conclude that the industry of a colony is employed in agriculture and in supplying those

*The rate of profit which*

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wants of the people for which provision cannot be made by importing commodities from other countries. For besides agricultural labourers, there must, in a young colony, be bricklayers and carpenters to build houses, and all the various retail dealers and others connected with them who minister to the daily domestic requirements of life. Since, therefore, agriculture is the staple industry of a colony, it is evident that the average rate of profit which prevails will be regulated by the profit which can be obtained upon agriculture. When there is abundance of fertile land, every one can easily become a farmer; hence capital would not long continue to be employed in house building, or in retail trades, if a larger profit could be realised by investing it in agriculture. In order therefore to explain the high rate of profit which prevails in a colony, it will be necessary to show that the profits on agriculture are larger in a colony than in a thickly-peopled country. Where fertile land is so abundant, it is of course only necessary to cultivate the most productive soils. Consequently labour and capital, when applied to agriculture, will be far more productive in a colony than in a country like our own. It may perhaps, however, be said, that we have land far more fertile than any which is tilled in Australia. This, no doubt, is true, but the English farmer has to pay a heavy rent for the use of land, and he does not on the average realise greater profits than the farmer who cultivates worse land, but who pays a smaller rent. England's population is so great, that there is a demand for all the produce which can be raised from her cultivated soil; high rents therefore must prevail. These rents are an essential part of an English farmer's expense; he pays his rent for the use of an efficient agent of production, just in the same way as if he were compelled to purchase a useful machine. The farmer in a colony has, speaking comparatively, to pay no rent; he is saved this heavy expense,

and there consequently remains a greater amount of produce to be distributed between the farmer and the labourer. Wages and profits are, for these reasons, almost invariably higher in a colony where fertile land is abundant, than in an older country where the growth of population has made land scarce.

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accumulated, but is not invested in our own country, produces no effect, either upon the average rate of profit, or upon the wages paid to our labourers; and as the field for the investment in foreign countries may become of almost boundless extent, it is quite possible to conceive, that capital may continue to increase, even with greater rapidity than it has during the past few years, without causing any fall in the rate of profit. If, however, this outlet for our savings should be at any time partially closed, a great stream of capital would, as it were, be turned back upon England; the circulating capital of the country would consequently be greatly augmented; the wages paid to the labourers, and therefore the cost of their labour, would be greatly increased, and the rate of profit would rapidly decline.

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are every year introducing greater efficiency and economy into agriculture. Moreover, since the repeal of the corn laws, many million quarters of corn have each year been imported, and if our population is to continue to increase, the extra quantity of food required must be supplied by increased importations. If we were compelled to obtain from our own soil all the additional food which an increasing population would require, food would greatly rise in price, the cost of labour would be increased, and profits decline. It is, however, probable that the importation of corn might be in the course of a few years almost indefinitely increased, without any augmentation in its cost. Only a very small portion of the land which is adapted to grow wheat has ever yet been properly tilled, and railways and other means of communication will open up to us large corn-producing districts, from which before we have been virtually excluded. California has already sent us wheat, and the highest authorities have affirmed, that India, with good means of communication, could supply us with an almost unlimited quantity of wheat, at prices much lower than those which on the average of years prevail. Some articles of food are sure to become dearer as population advances; this is particularly the case with meat and dairy produce. These are perishable commodities, and cannot be sent from a great distance without considerable difficulty and expense. Although, therefore, some articles of food will become dearer as population increases, yet corn and other such products which can be readily imported might become cheaper. Improved processes of manufacture are constantly cheapening articles of clothing, and therefore the increase in the cost of the labourer's living, which we might expect would be caused by the augmentation in the number of the population, has been to a very great extent counteracted, and may continue to be so by the importations of cheap food, or by the cheapening of almost every article of clothing. Many political economists

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*High or low prices do not imply a high or low rate of profit.*

General high or low prices indicate nothing with regard to the average rate of profit. High prices simply show that money has a small purchasing power, and, on the other hand, low prices show that money has a large purchasing power. If, from the discovery of very rich gold mines, the cost of obtaining gold should be greatly reduced, gold might then decline in value one half, and if this should be so, the price of every commodity would be doubled. It would not however follow, that such a great rise in general prices would be accompanied by even the slightest alteration in the average of profit. In order to prove this, let us enquire in what manner the position of a manufacturer would be affected by such a change in the value of gold as that just supposed. If general prices were doubled, the manufacturer would be enabled to obtain double the price for his goods; but then it must not be forgotten, that the money cost of producing these goods would also be doubled, for he would be obliged to pay double the price for his machinery, and for the raw material. His labourers' wages must also be doubled, because now 5*l.* would only have the same power of purchasing commodities as 50*s.* had before. It is therefore manifest, that a general rise or fall in prices is solely caused by an alteration in the value of the precious metals, and, consequently, can have no effect in determining the average rate of profit.

*The rate of profit is primarily determined by the ratio in which produce is divided.*

In order that there should be no obscurity upon this subject, let us again impress upon our readers, that the rate of profit is primarily determined by the ratio in which any wealth which is produced is distributed between the capitalists and the labourers, who have contributed to its production. Unless, therefore, the amount of the wealth itself is increased, the share allotted to the capitalists can only be augmented by diminishing the share appropriated to the labourers. If, for instance, the employer's share is one third, the labourers' share will be two thirds, and if

the employer's profits should be increased, and his share should become one half, the labourers' wages must be diminished, for their share will be one half instead of two thirds. The proposition, though apparently so simple, is fundamental, and cannot be too carefully borne in mind by the reader.

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Adam Smith and Dr. Chalmers no doubt erroneously conceived, that the average rate of profit was lowered by the competition of capital, in consequence of misinterpreting certain phenomena which they observed. It constantly happens, that when the profits of any particular trade are exceptionally high, an active competition of capital immediately commences in the trade; every one is anxious to enjoy the largest possible share of these high profits. All those who are engaged in the trade bring fresh capital into it, so as to extend their operations; if, moreover, the high rate of profit continues for any length of time, many others will be tempted to engage in the business. This largely increased application of capital will sooner or later cause over-production; prices will then rapidly decline, and the profits realised in the particular trade will gradually sink to their former level. The competition of capital therefore does not produce a general low average of profit, it rather exerts an equalising influence, and thus prevents the profits of any particular branch of industry continuing permanently above the average rate. It is not the competition of capital, but the accumulation of capital, which affects the average rate of profit. This is a proposition which we will now proceed to establish.

*Phenomena which led Adam Smith to suppose that profits were lowered by the competition of capital,*

*instead of the accumulation of capital.*

We have already found it convenient to employ the expression, the effective desire to accumulate wealth. Now this effective desire is sure to increase with the social progress of a nation. The less civilised a people are, the less care will they have for the future; the more prudent a people are, the more desirous will they be to save wealth,

*The effective desire to accumulate wealth increases as a country progresses.*

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*The 'stationary state'*

Those political economists who consider that a decline in the rate of profit must of necessity accompany an advance in population and wealth, frequently affirm, that material progress has very definite limits, and that the progress of each nation must, necessarily, sooner or later cease. It is, for instance, maintained, that if the rate of profit continues to decline, the returns to capital will, after a time, be so small, that no adequate inducement will be any longer held out for increased accumulation. Under these circumstances, capital will not be further increased, the rate of profit will have reached its lowest limit, and the nation then will arrive at what is called a stationary state. A stationary state is of course a possible contingency for any progressive country, and there can be no doubt that England might soon be in this condition if those causes which we have enumerated, as tending to keep up the rate of profit, ceased to act for any length of time.

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But we think, with regard to almost all countries, that the stationary state was much more likely to be attained fifty years since than it is now. During the last century, the Dutch frequently lent money to their government at two per cent.; this indicates a much lower rate of profit than has prevailed in any European country for many years past. Holland in the last century had no doubt very closely approached the stationary state. But the general condition of Europe was then so disturbed, that comparatively little capital was sent from one country to

another for the purpose of being invested; hence, nearly all the capital which was accumulated by the thrifty Dutch had to be invested in their own country, and the result of this was that the rate of profit which prevailed was so low, that no sufficient inducement was offered to increase the amount of capital accumulated.

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*A commercial crisis may tend to keep it up by the destruction of capital.*

**BOOK III.** capabilities of the market. Besides, a theory so essentially  
**CH. XIV.** self-contradictory cannot intrude itself without carrying  
confusion into the very heart of the subject, and making  
it impossible even to conceive with any distinctness many  
of the more complicated economical workings of society.\*

## CHAPTER XV.

## ON THE RECENT GOLD DISCOVERIES.

THE unprecedentedly large supplies of gold which have been obtained from Australia and California, during the last few years, have already produced many important results, and if these supplies continue, a still more powerful influence will no doubt be exerted upon the commercial condition of every country. When the intelligence that rich deposits of gold were spread over Australia and California was confirmed by the repeated arrival of ships with many thousand ounces on board, the commercial mind of Europe became greatly excited. The wildest speculations were indulged in; financiers of great reputation confidently predicted, that gold would be so rapidly depreciated in value, that it would in a few years be as cheap as silver. These predictions have not been realised, for although the yield of gold has continued far in excess of the original amount at which it was estimated, yet it is now a disputed point, whether up to the present time the value of gold has suffered any depreciation. We shall not hope to settle this disputed question, but we shall endeavour to explain the nature of the evidence which is required to decide such a question. After we have done this, we shall proceed to remark upon some of the effects on prices which may be probably produced in future years, by the continuance of these supplies of gold, and we shall conclude the chapter by tracing many most important consequences resulting from the discovery of gold in Australia, which are quite independent of any influence

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*The effects  
of recent  
large gold  
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uncertain.*

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*Only a small part of the Australian and Californian gold has been used in the English currency.*

exerted upon prices. Moreover, this is a branch of the subject which has been hitherto almost entirely neglected.

The Australian gold fields were discovered about the year 1850, and those of California two years earlier. Before that time, almost all the gold used in Europe was obtained from South America and the Ural Mountains. It has been calculated, that the annual yield from all these sources combined did not exceed 6,000,000*l.*; and of this amount about 4,000,000*l.* was each year sent to England. But since the year 1850, the average yield of gold in Australia has been 10,000,000*l.*, and the gold mines of California have been scarcely less productive. Almost all of the Australian gold has been sent to this country, and the average annual amount which we have obtained from California has been at least 4,000,000*l.* It therefore appears that, during the last twelve years, Australia and California have together sent to this country an amount of gold exceeding by three times the amount which we previously obtained during a similar period from all sources combined. The question, therefore, is at once suggested, What has England done with this additional 150,000,000*l.* of gold? There can be no doubt that only a small portion of this additional gold has been coined, for the purpose of being employed as money in this country\*. Since, therefore, only a small portion of the additional gold which has been imported into this country has been converted into currency, we will proceed to enquire in what manner the remainder has been appropriated.

\* We are able to form no correct estimate of the amount of gold coin added to our currency by examining the Mint returns. The statistics of the Mint show the amount of gold, silver, and copper money annually coined; money is, however, constantly withdrawn from circulation for the purpose of being re-coined, and a considerable portion of the precious metals which are sent from this country is exported, not in the form of bullion, but in specie. A glance at the Mint returns at once proves the impossibility of forming from them any correct opinion as to the mode in which the precious metals which we annually import are employed. Thus in 1847, the year before the gold discoveries were made, the gold coined at our Mint amounted to 5,000,000*l.*; in 1853 the amount rose to 11,000,000*l.*; whereas it declined in 1853 to 1,200,000*l.*

The gold which England imports must be applied to one of the three following purposes:—

- 1st. It may be employed in our arts and manufactures.
- 2nd. It may be coined into money at our Mint.
- 3rd. It may be transmitted to foreign countries to pay for various commodities which we have purchased from them in the ordinary transactions of commerce.

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*Purposes to which the gold may have been applied.*

We have already alluded to the extreme difficulty of even approximately estimating the amount of gold which is annually used in arts and manufactures. From the stamp which in this country is placed upon plate, we are enabled to ascertain that not more than 40,000*l.* of gold plate is annually manufactured. Gold is however devoted to a great variety of purposes, and Mr. Jacob, a high authority, supposed thirty years ago that 2,000,000*l.* of gold was annually absorbed in arts and manufactures. The amount of gold which is so employed has no doubt since then greatly increased. Mr. Jacob is generally considered to have made an exaggerated estimate. The difference of opinion which exists upon this point does not however in the least degree militate against the certainty of the conclusions which we wish to establish; for whatever be the amount of gold which is absorbed in arts and manufactures, it is still nevertheless evident that the amount thus absorbed, though it may gradually increase, cannot vary greatly from year to year. When, therefore, the annual yield of gold was nearly quadrupled, by the Australian and California discoveries, only a very small portion of this additional gold could in the first instance be absorbed, by an increased demand for gold for industrial purposes. Unless it is assumed that gold is cheapened, there can be no reason why the amount of gold employed in arts and manufactures should be much greater in 1852 than it was in 1848, and yet the yield of gold increased during this interval more than three-fold. Hence it may be said, with sufficient exactness, that almost the whole of

*The amount used in arts and manufactures probably varies little.*

BOOK III. the additional gold which we have obtained from Australia  
 CH. XV. and California must have be either coined at our Mint  
 or re-exported to foreign countries.

*A larger  
 circulation  
 is required  
 by an in-  
 creased  
 population  
 in order  
 that prices  
 may not  
 vary.*

It will be remembered, that in a previous chapter we explained the connection between the quantity of money in circulation, and the general prices of commodities, and it was then proved, that prices rise or fall in exact proportion to the increase or decrease in the quantity of money in circulation, if it is assumed that whilst this increase takes place, nothing occurs to affect the general economy of the nation. This principle may not appear to be sufficiently clear, because we have employed the ambiguous expression, 'no change in the economy of the nation;' let us therefore explain the exact nature of the qualification thus introduced. It is quite evident, that if the population of a country should greatly increase, a larger quantity of money would be required to be kept in circulation, for there would be more buying and selling. If a nation had 30,000,000*l.* of money in circulation, when its population was 10,000,000, it would seem that 45,000,000*l.* of money ought to be in circulation when its population had increased to 15,000,000. If, however, no additional amount of money was brought into circulation as the population increased, and if, at the same time, no substitutes for money were provided, the same amount of money would have to do a greater amount of buying and selling than it did before, or, in other words, a smaller quantity of money will be exchanged in each transaction of buying and selling. The consequence of this must be a general decline in the price of commodities.

*The rise of  
 prices con-  
 sequent  
 upon an  
 increased  
 circulation.*

On the other hand, if an additional quantity of money should be brought into circulation far in excess of the increase in the wealth or population of the country, a greater quantity of money would be exchanged in each transaction of buying and selling, and general prices would rise. This rise in price could only be prevented, by employing the



extra money in transactions which were before carried on by some of the substitutes for money which credit provides. It is not however probable, that the rise in general prices which would occur under the circumstances supposed would be thus prevented, although such a contingency is theoretically possible. We have already described the various substitutes for money which are now used in every mercantile country, and we have stated that an increasing proportion of the business of the country is conducted by cheques, and bills of exchange. If some such substitutes for money as these did not exist, money must be employed in a great number of transactions, where now it is completely dispensed with. We have therefore said, that it is theoretically possible that an additional quantity of money might be brought into circulation, without exerting any effect on prices, if some of the existing substitutes for money were displaced; but we at the same time remarked, that such a contingency was extremely improbable, because in a progressive mercantile country like our own, the substitutes for money, instead of being displaced, are each year more extensively used. For instance, a very short time has elapsed since many traders, such as farmers, paid and received everything in money. A farmer would pay his rent in money, and sell his wheat and sheep for money, but now all the large farmers in England have banking accounts, and they use cheques for every payment which exceeds a few pounds. Hence, although the quantity and the value of the produce which is annually bought and sold by the English farmers has greatly increased during the last few years, yet a much smaller quantity of money is probably kept in circulation in the agricultural districts, because cheques are now employed in so many transactions, instead of money.

We have made these remarks, in order to show the extreme difficulty of ascertaining the effect exerted on general prices by an increase or decrease in the quantity of money

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*Might be checked if the gold supplanted some of the substitutes for money,*

*but this is very improbable.*

*Hence it is difficult to determine the effect*

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*produced  
on prices by  
an increase  
or decrease  
of the cir-  
culation.*

in circulation. If, for instance, the population and wealth of the country increase, and if more money is not brought into circulation, one of two things must occur: either general prices must decline, or some of the substitutes for money must be employed in transactions which were previously carried on by money. If, on the other hand, an additional quantity of money is brought into circulation when there is no corresponding increase in the wealth and population of the country, then, again, one of two things must occur: either the value of gold must be depreciated and general prices will rise, or money must be used in transactions where it was not previously employed. The first of these contingencies, namely, a general rise in prices, would be almost sure to occur, because in progressive mercantile countries, such as our own, there is no probability that money will be used in transactions where it was not previously employed, since every year a greater amount of business is carried on by means of the various substitutes for money. Hence, from the remarks which have just been made, the following question is suggested for solution, in order to decide what effect the recent gold discoveries have exerted on general prices in this country.

*We cannot  
discover  
whether the  
increase of  
gold has  
been more  
than pro-  
portional  
to the in-  
creased  
number of  
transac-  
tions.*

The question is this, Has the additional gold which has been coined and circulated as money in this country been in excess of the amount required for the increase which has occurred during the last twelve years in the wealth and population of the country? If this question is answered in the affirmative, general prices must undoubtedly have risen. But the solution of such a question depends on facts which can only be approximately ascertained; for it is, in the first place, impossible to calculate with even any pretence to accuracy, what is the amount of wealth which is annually bought and sold in this country; and, in the second place, if this amount could be contrasted with what it was twelve years since, it would be further necessary to ascertain how much of this

wealth was actually exchanged for money, in order to be able to decide what is the amount of money required to be in circulation at any particular time, so as to preserve uniformity in general prices. It would therefore seem that the method of investigation just indicated does not enable us to know with precision whether general prices have risen or fallen, during any particular epoch.

But it may perhaps be said, If it is desired to know anything concerning a general rise or fall in prices, why not adopt a very obvious and simple method, and compare the prices of commodities now with what they were a few years since? The method however, though obvious and simple, does not supply so conclusive a test as may be supposed, as will be seen if we try its efficiency by employing it to discover what has been the effect on prices of the recent gold discoveries. Directly such a comparison is attempted, it will be found that there has been neither a general rise nor a general fall in prices\*. The price of some commodities has increased, whereas the price of some other commodities has decreased to a corresponding extent. For instance, during the last ten or twelve years, the price of meat and dairy produce has decidedly risen, whereas the price of manufactured goods has fallen. But, as has been previously stated, the rise in the price of meat may be fairly explained without implying that the

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*Nor can we directly compare the prices of commodities, because those prices are affected by many other causes, and the prices of some may fall whilst others rise.*

\* A remarkably able pamphlet by Mr. Jevons, which was published by Messrs. Sandford of Charing Cross in 1863, has induced me in some degree to modify this opinion. Mr. Jevons has made the most elaborate comparison which has ever been attempted of the changes which have taken place in the prices of commodities since the gold discoveries, and he certainly deduces results which seem to lead to the conclusion that a depreciation in the value of gold has already commenced. Mr. Jevons with some confidence affirms that this depreciation amounts to 15 per cent., but he seems to me to possess hardly sufficient data to make so precise an estimate; for it should be always borne in mind, that a rise or fall in the prices of various commodities has been caused by a great variety of circumstances, which are quite independent of any change in the value of gold. Thus, to repeat an illustration to which we have frequently alluded, it cannot be doubted that wheat has been made cheaper by foreign importations, and that meat has become dearer, because the demand for it has become greater in consequence of an increase in our population.

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value of gold has been depreciated by the recent discoveries, since the increase in the quantity of meat which is required to meet the wants of a larger population is quite sufficient to account for a rise in the price of meat. Again, improvements in machinery and in the processes of manufacture have cheapened the cost of producing various commodities, and their price has consequently declined. It therefore appears that a rise in the price of some articles and a fall in the price of others may be due to some special causes, and may occur independently of any general decrease or increase in the value of gold. It is therefore natural to expect that a comparison of general prices now with what they were ten or twelve years since will not enable us to decide with certainty whether or not the value of gold has been depreciated. Undoubtedly the depreciation cannot as yet have been very great, because opinions still differ as to whether a certain income, say 100*l.* per annum, will now purchase as many of the enjoyments and necessaries of life as it did before the new gold was discovered. It may seem that there is yet another method of investigation, which will conclusively decide the question as to whether the value of gold has, or has not, been depreciated. Thus it may be said, that in a previous chapter of this work, the value of gold as well as of all other mineral produce was stated to be regulated by laws similar to those which determine the value of agricultural produce. If the value, or price of agricultural produce declines, the worst land in cultivation will cease to return any profit, and will consequently be thrown out of tillage. In the same way, if the value of mineral produce declines, the profits resulting from mining industry will be diminished, and many of the least productive mines will cease to be worked. It may therefore be thought that many of the least productive gold mines must during the last few years have been relinquished if the value of gold has been depreciated by the discoveries

*It might be supposed that, if gold had fallen in value, mines would have gone out of work.*

in Australia and California. It does not, however, appear that gold mines in other parts of the world have been thus relinquished, because the yield of gold from South America and other sources of supply is as great now as it was previous to the discovery of the Australian gold fields. This fact therefore seems to support the opinion that the value of gold has not, as yet, been depreciated to any considerable extent.

The evidence, however, which is derived from the consideration just mentioned, is not as conclusive as at first sight it may appear to be. We throw out this suggestion in order to caution our readers, because it must be borne in mind that mining industry, and especially gold mining, is far more speculative and uncertain than agriculture. A decline in the price of agricultural produce almost immediately affects the rent which farmers will consent to pay. Each farmer can very approximately calculate the profit which he shall be able to realise, and he will refuse to rent his farm, unless he considers that he shall be able to obtain an adequate return for his labour and his capital. No such calculation can, however, be made with regard to the profits which a mine is likely to yield. It often happens that the discovery of a new lode may in a few months vastly increase the profits and value of a mine. Even in our own country it has frequently happened that a copper or tin mine has in a short time increased in value a hundred fold. Mining therefore resembles a lottery; those consequently who are engaged in mining industry do not, or cannot, calculate the profits which are likely to be realised. The chance of obtaining a great prize is the real motive which prompts mining enterprise. Thus, again and again has it been stated that the copper and tin mines of Cornwall do not, on the aggregate, return a profit of two per cent. on the capital which is expended upon them. This striking statistical fact exerts no influence whatever, and people will continue to embark

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*This is not conclusive, because mining profits are unsteady and partake of the nature of a lottery.*

*They are worked when the average profits are extremely low.*

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their capital in this unremunerative industry, as long as they observe that a mine here and there has been so successful that 100*l.* originally invested in it would realise an annual income of many hundreds a year. People in a similar way are attracted to the gold fields by the intelligence of great and successful 'finds,' and they seldom calculate what is the average profit realised by each person employed upon a gold field. It therefore appears that the supply of gold may not immediately be much affected by a slight depreciation in its value; a continuance of the depreciation must, however, after a time diminish the supply. Hence a depreciation in the value of gold is, as it were, spontaneously retarded, because a depreciation in value exerts a tendency to decrease the supply of gold, and a diminution in the supply at the same time exerts a tendency to increase its value.

*The large supplies of gold received have prevented a disarrangement of the finances of the country.*

The fact that the large additional supplies of gold have, as yet, caused no marked depreciation in its value, enables us to account for a most important result which has been undoubtedly produced by these discoveries. We have already stated that any sudden variation in the value of the substance which is chosen as money must prove most disastrous to a mercantile nation. Our readers will clearly perceive this, if they reflect for a moment upon some of the consequences which would ensue, if the value of gold should, in a few years, increase fifty per cent. Every fixed money payment would then be increased fifty per cent., since the prices of all commodities would be reduced fifty per cent.; and therefore 150 sacks of wheat could only sell for the same amount of money as 100 sacks sold for before. Those, therefore, who had to pay fixed money rents, would have their rents virtually raised fifty per cent., because fifty per cent. more produce must be sold to obtain the requisite amount of money to pay the rent. Again, the burden of the national debt would be increased fifty per cent.; because, if the interest on the debt was

30,000,000*l.*, this amount of money would represent the same quantity of wealth as 45,000,000*l.* did before the value of gold was depreciated. The whole monetary arrangements of the country would, in fact, be thrown into a state of confusion, since those who had fixed money payments to receive would be enriched as much as those would be impoverished who had to make these payments. Now, there can be no doubt that the value of gold would have been suddenly increased, and the disastrous consequence just mentioned would have consequently ensued, if England had not obtained since the year 1850 a large additional supply of gold. It is a remarkable coincidence, that the time when the gold discoveries were made was the commencement of a new era in the commerce of this country; the Navigation Laws were then repealed, and this measure completed the great free-trade policy of Sir Robert Peel. Our commerce and trade, released from the trammels of protective duties, at once showed a most extraordinary development. Our exports in twelve years, from 1848-60, advanced from 60,000,000*l.* to 135,000,000*l.*, and our imports exhibit a corresponding increase. In 1847 we imported about 500,000,000 lbs. of cotton, and 55,000,000 lbs. of tea, and in 1856 we imported more than 1,000,000,000 lbs. of cotton, and nearly 90,000,000 lbs. of tea. This expansion of our trade and commerce was as sudden as it was great; for it is an instructive fact, that the trade of this country seemed to be in a stationary state for several years previous to the introduction of free trade. Our exports and imports had, since the conclusion of the war in 1815, shown a progressive increase; but about the year 1838, until the establishment of free trade, they remained almost stationary. Now, it is quite evident that such a sudden development of trade and commerce would require a larger amount of money to be brought into circulation; for, as the wealth of the country increased, a greater amount of wealth would be

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*This is owing to the fact that the gold discoveries coincided with the commencement of a new era in commerce.*

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each year bought and sold for money, more money would also be required because the population was more numerous. Again, more money was wanted in order to pay the wages of the labourers; for our exports could not advance from 60,000,000*l.* to 135,000,000*l.* without the wage-fund of the country being enormously increased. It therefore appears, that the sudden development of our trade and commerce about the year 1850, created a demand for a greater quantity of money to be brought into circulation.

*If the gold had not been discovered, the additional demand for money must have raised prices.*

If no new supplies of gold had been forthcoming, this additional demand for gold must have inevitably caused a sudden rise in its value. The extent of this rise might have been very considerable, and those consequences would have ensued which have been already described. The increase in the value of gold which would have occurred, can be best understood by reflecting on the large quantities of gold which have been poured into this country without producing any marked depreciation in its value. It therefore may be regarded as conclusively proved that the gold discoveries were made at a most opportune time, and that they averted a most serious evil; for, if we had been left to the old sources of supply for obtaining gold, England's commerce could not have expanded as it has during the last few years without a large and sudden fall in general prices.

*A large quantity of gold has been re-exported to India and China.*

We have next to investigate the manner in which the large quantity of gold has been employed which England has re-exported to foreign countries. An examination of the Board of Trade returns at once suggests an answer to this enquiry; for it will be perceived that, since the year 1850, there has been an extraordinary export of the precious metals to India and China. The average annual amount thus exported has certainly been not less than 12,000,000*l.*, and yet a few years previously to this, the amount sent was comparatively insignificant. The causes



which have induced this large export of the precious metals to the East are well worthy of explanation. The increase in the trade of this country which has just been described, is exhibited in a very striking manner by the quantity of tea and silk which we import from China. In 1847 we purchased only 55,000,000 lbs. of tea from China, whereas we now import nearly 100,000,000 lbs. This increased consumption of tea which has taken place since the introduction of free trade satisfactorily proves the benefits which have been derived from that policy; for there is no luxury so much prized by our labouring classes as tea, and therefore the consumption of tea could not have been nearly doubled unless our labouring poor had become far more prosperous. About the year 1850, another circumstance happened which powerfully affected our Chinese trade, for then the silk crop in Europe first began to show signs of failure. China was at once resorted to, and since that time large quantities of raw silk have been imported from that country. In the year 1855 we imported more than 4,000,000 lbs. of silk from China, whereas a short time previously the importation had been insignificant. These figures are sufficient to demonstrate the enormous increase which has occurred during the last few years in the money value of our imports from China. But our exports to that country do not advance in a corresponding degree; the Chinese possess all the prejudices which result from an isolation of 2,000 years. Although the industry of this people is so remarkable that they seem capable of supplying Europe with any quantity of tea and silk which may be required, yet the Chinese will not accept European commodities in exchange for their produce. For great as is the increase of our imports from China, yet our exports to that country were less in 1855 than they were in 1844. During the three years 1844-5-6, our exports to China averaged rather more than 2,000,000*l.* In 1853 they declined to 1,700,000*l.*, and in the next two years to

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*China has refused to accept other commodities than the precious metals.*

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1,000,000*l.* The result of this is, that what is popularly called the balance of trade is largely against England and in favour of China. In order to adjust this balance of trade, we are compelled, as has been already stated, annually to send many million pounds sterling of the precious metals to China.

*In India gold and silver have been sent out in consequence of the great outlay of English capital.*

Again, with regard to India, the large public works which have been carried out in that country have rendered it necessary that a considerable amount of the precious metals should annually be sent there from Europe. It has for instance been calculated that, in seven years 43,000,000*l.* of English capital has been subscribed for Indian railways; a portion of this was of course spent in England for plant and materials, but a large portion of the amount was sent in the form of precious metals to India, for the purpose of paying those employed in the construction of the railways. The causes which have been here stated, and others of minor importance, which might be enumerated, are quite sufficient to explain why, during the last few years, an amount of the precious metals equivalent, on the average, to 12,000,000*l.* has been annually exported to India and China.

*Although it is chiefly silver which has been sent, the place filled by the silver in Europe has to be filled up by gold.*

It may, however, be urged, that these facts do not prove that much of the Australian and Californian gold has been absorbed by India and China; because it is silver, and not gold, which has been chiefly sent to those countries. As far, however, as the absorption of gold is concerned, it makes little difference whether it is this metal, or silver, which is sent to the East; for the large quantities of silver which have been exported to the East, must have been principally obtained from the silver coinage of various countries; in fact, it is well known, that the silver currency of France has supplied a considerable portion of the silver which has been thus exported. A few years ago, a very large number of five-franc pieces were in circulation in France; a large amount of this particular kind of money

had been hoarded and kept concealed by the peasantry of remote districts. The demand for silver to be sent to the East has caused a very large number of these five-franc pieces to be bought up, for the purpose of being melted down. Their place in the French currency has been occupied by gold coin; and therefore, although silver is sent to the East, yet it may be considered that gold is really absorbed, if this silver, which is thus sent, has to be replaced by gold of a corresponding value.

Although the greater part of the new supplies of gold which have not been retained by England, have been either exported to the East, or have replaced the silver which has been exported to the same destination, yet some of the Australian and Californian gold has been absorbed by other countries. For instance, these countries themselves, as well as many others, have been rapidly advancing in population and wealth, and their growing trade consequently requires a greater amount of money to be brought into circulation. But as long as 12,000,000*l.* of the precious metals are annually sent to the East, we must regard this as the principal source for the absorption of the new supplies of gold. Hence it would appear, that the future position of our trade with India and China must mainly determine the influence which is yet destined to be exerted on prices by the recent gold discoveries. The present position of our trade with China is so anomalous, that it would be hazardous to make any prediction regarding it. Who, for instance, can tell how long the balance of trade will be against our own country, and in favour of China? Perhaps the Chinese are anxious to exchange their tea and silk for gold and silver; because the unfortunate civil war which is raging there, makes property insecure, and the precious metals can be easily concealed and hoarded. The Chinese, moreover, are a remarkably shrewd people, and they are ever ready to avail themselves of any chance of making a pecuniary gain. What, then, is more

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*The future consumption of the precious metals will depend upon the amount sent to the East.*

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likely than that they may some day recognise the advantage of exchanging their tea and silk, not for the precious metals, but for some commodities of European manufacture? The loss which the Chinese suffer from the present method of carrying on trade, is very apparent; for the precious metals are not intrinsically useful, and 1,000,000*l.* expended in England would purchase commodities of far greater use and value, than could be purchased by the same amount of money, if it was expended in China. If the Chinese should become large importers of European products, Europe would no longer be obliged to send the precious metals to that country, in order to adjust the balance of trade. There would consequently cease to be any demand for a considerable portion of the 12,000,000*l.* of gold and silver which is now annually sent from England to the East.

*If the flow of the precious metals to the East were checked, prices would soon rise in England.*

This great stream of the precious metals being, as it were, turned back upon England, would no doubt cause the value of gold to be rapidly depreciated, and the consequence would be a general rise in prices. We do not predict this as a certain, but simply as a possible, result; it ought not, however, to be forgotten, that it is a contingency which may at any time occur in the course of a few years, and we therefore think that people would be prudent, if they made some preparations to meet it. The practical importance of taking such precautions has not, however, as yet been recognised in this country; for instance, fathers who wish to leave a comfortable provision for unmarried daughters, frequently settle upon them a certain fixed money income, arising from an investment in the funds, and generally the money is settled upon them in such a way that the investment cannot be changed. We have, however, stated reasons which seem to show, that such a provision is not so free from all risk as it is intended to be. For if a certain contingency should occur (such, for instance, as an alteration in the present condition of

the Eastern trade, or the discovery of still richer deposits of the precious metals), the value of these metals may be so depreciated that an income of 200*l.* per annum would be worth no more than 100*l.* is now. If we carefully weigh all the facts bearing upon the subject, we are inclined to believe that the chances are rather against, than in favour of, such a depreciation; but still its occurrence is by no means improbable, and we therefore think it ought to be considered in all transactions which involve the continuance of fixed money payments during a considerable time.

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We will give an example to show how this possible depreciation in the value of gold might be guarded against. Suppose a person wished permanently to invest 10,000*l.* in railway property; this sum invested in debentures would give him a uniform income of about 400*l.* a year. If, however, the value of gold became depreciated twenty-five per cent., he would virtually lose twenty-five per cent. of his income, although its nominal amount would remain unaltered. Let it, however, be assumed, that the 10,000*l.* was expended not in debentures, but in stock. A debenture only gives a man a claim upon a railway company for a certain annual money payment, but the possessor of railway stock is part owner of the railway itself; if, therefore, the value of gold is depreciated, the money value of the railway will, *cæteris paribus*, increase in a corresponding degree; and, therefore, the money value of the stock which is possessed by the individual, will also be increased to the same extent. Hence, property thus invested is secure against any loss arising from a depreciation in the value of gold. An income derived from land is also similarly secured against any loss arising from this cause; but all securities, such as our own funds, foreign stocks, &c., in which a fixed rate of interest is paid, diminish in value in exact proportion to the depreciation in the value of gold. It must not, however, be supposed, that this depreciation would be

Means by which the evils caused by a depreciation of gold in particular cases may be avoided.

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shown by a reduction in the price of the securities; their price would not be in any way affected. If gold were depreciated one half, 3*l.* would be worth no more than 1*l.* 10*s.* is now, and a fundholder's property would consequently be depreciated one half, although the price of funds might remain unaltered. It is moreover evident, that the tax-payers would be relieved of one half the burden of the national debt, if the fundholders lost one half their income by a depreciation in the value of gold.

*The fundholders would have no claim for compensation on the government.*

Some have considered, that if the fundholders' property should be depreciated in the manner just described, they would have a legitimate claim for compensation from the nation. Such a claim might be urged with apparent reason, if gold had been depreciated in value so suddenly that it was impossible for any one to take timely warning. The claim, however, under present circumstances, would be entirely indefensible; for the possibility of a depreciation in the value of gold has been discussed and predicted for the last twelve years. Some authorities affirm, that the depreciation has already commenced; whereas other authorities of equal reputation as confidently assert, that the time may be still indefinitely distant, when the value of gold will become depreciated. Hence every investor has ample time to take warning, and no one ought for one moment to be encouraged to believe that he would have the slightest claim for compensation, if his property should become depreciated by a fall in the value of gold.

*Influence of the gold discoveries upon the exporting countries.*

We have now considered the influence that has been, and is yet likely to be, exerted on prices, by the recent gold discoveries; it therefore only remains to describe the effects which these discoveries have produced upon the countries in which they have been made. We will, for the sake of convenience, chiefly confine our attention to a description of the economic progress of Australia; for at the time of the gold discoveries, the commercial condition of Australia so much resembled that of California, that the remarks

which we may make with regard to the one country, will equally apply to the other

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It has been previously stated, that of the three requisites of production—viz. land, labour, and capital—a young colony such as Australia possesses the first in an eminent degree; for long previous to the gold discoveries, the great natural resources of Australia were known, but it was impossible, in consequence of a deficiency in the supply of labour, to make these resources adequately productive. Her pastures, for instance, grazed enormous flocks of sheep; the population of the colony was, however, so small that these sheep were worthless except for their wool. An abundance of fertile land could be purchased at almost a nominal price; but previously to 1848, comparatively very few emigrants went to Australia; consequently two of the requisites of production—namely, capital and labour—were wanting, and the progress of the colony was extremely slow. But directly it became known that rich deposits of gold had been discovered, thousands of emigrants were immediately attracted to Australia. This additional supply of labour exerted no immediate effect upon the development of the other resources of the country; in fact, her general industry was, in the first instance, seriously interfered with, for a great proportion of the labourers of the colony were attracted to the gold fields. Shepherds left their flocks, and every class of the community for a time relinquished their ordinary avocations. The whole economy of the nation was quickly thrown into a state of confusion; it was, however, soon discovered, that the average profits realised in the gold fields were not so great as the profits which could be obtained from many other employments. A considerable amount of labour was therefore rapidly withdrawn from the gold diggings, and returned to agriculture and other industrial pursuits. There was, moreover, a large population at the gold fields, whose wants had to be supplied. This new demand stimulated the industry,

*Australia was previously rich in land, but poor in labour and capital.*

*The gold discoveries attracted labour and capital,*

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increased the wealth of the colony, and, as an example, it may be stated, that meat which before could only be sold at a nominal price, soon realised 3*d.* and 4*d.* a pound in the Melbourne market. Wealth was rapidly made, and a large amount of capital was saved. The high rate of profit which prevailed in the country, attracted capital from England; Australia in this way suddenly obtained the two remaining requisites of production—namely, capital, and labour—and she consequently advanced in commercial prosperity with wonderful rapidity.

*although the rate of profit in gold mining was not exceptionally high.*

It therefore appears that the gold discoveries have exerted a special influence in promoting the industrial progress of Australia. We have, however, been anxious to explain, that the benefit thus conferred is not due to the realisation of an exceptionally high rate of profit in gold-digging. No doubt some of the Australian gold-diggers have made great gains; but, when the average earnings are estimated, it is found, that gold-digging is not more remunerative than other branches of industry. For instance, when agricultural wages were 40*s.* or 50*s.* a week in Australia, it was calculated that the average earnings of those engaged in many of the gold fields did not exceed 35*s.* a week. But the discovery of gold confers a special benefit upon a colony; because no other circumstance exerts so powerful an influence in attracting emigrants, and the reason of this is very obvious.

*Gold mining partakes of the nature of a lottery and is therefore very attractive,*

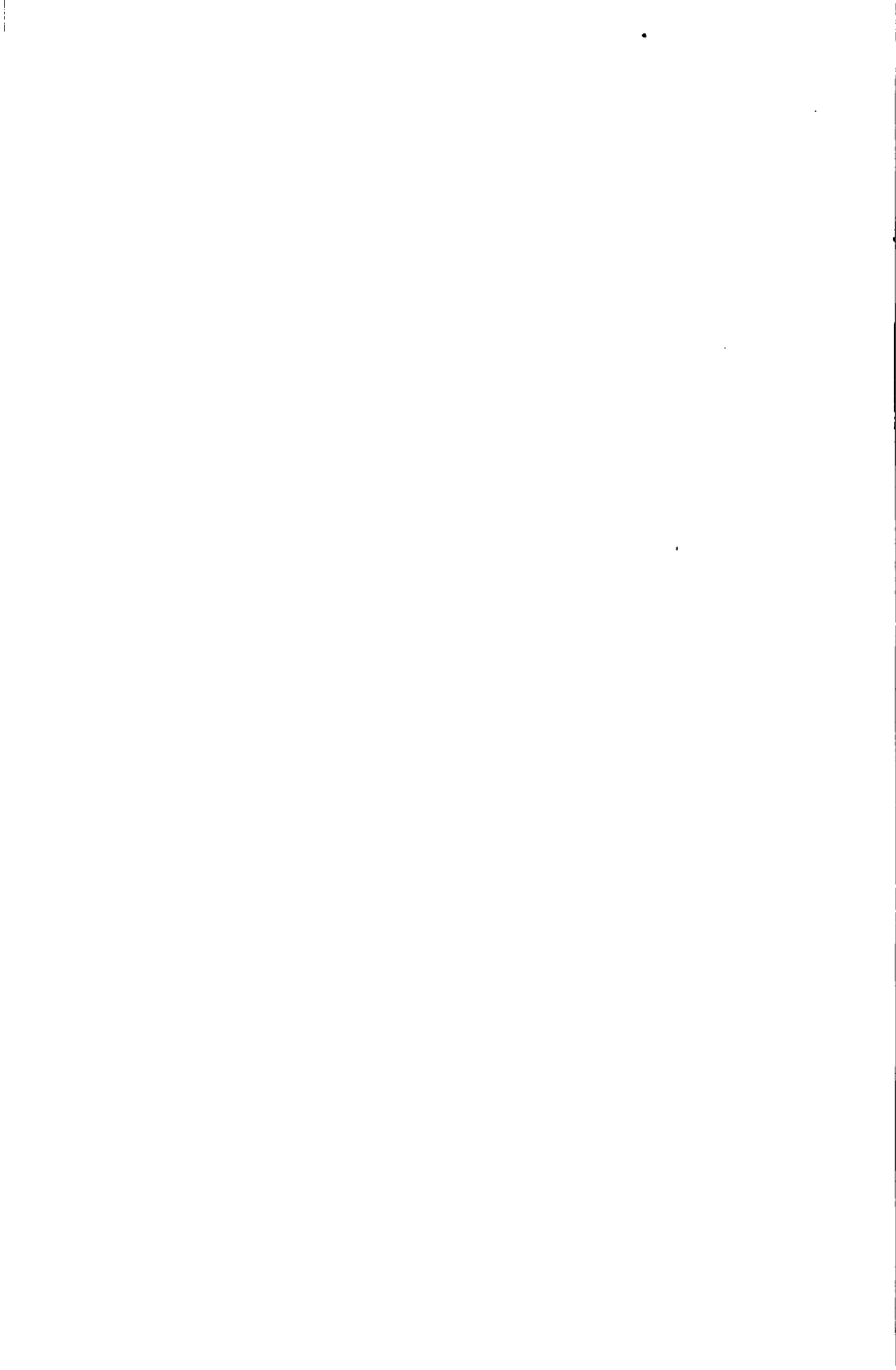
In the first place it may be remarked, that in a hazardous speculation such as gold-digging, the instances of great success are brought into far greater prominence than the corresponding cases of failure. The same feelings which induce people eagerly to enter a lottery, attract them to an employment which offers chances of great gain. It must also be borne in mind, that gold-digging is not impeded by those obstacles which, in a young colony, retard the progress of almost every other kind of industry. Land cannot, for instance, be profitably cultivated in a young



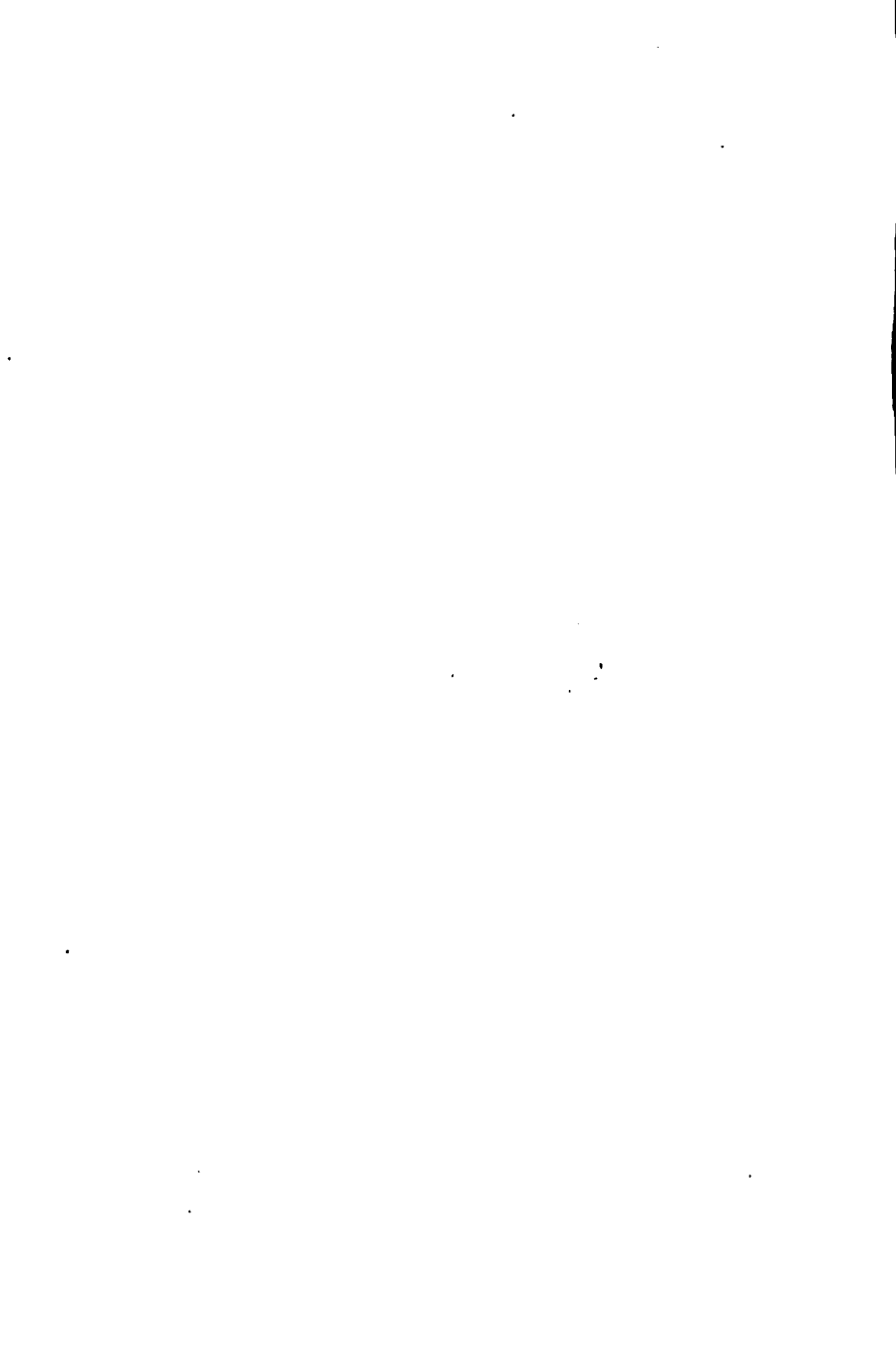
colony, until roads have been made, and until there is a town population in the colony itself to purchase the produce which may be grown. Manufacturing industry cannot be carried on with success, because labour is so dear. Moreover, all mining operations except gold-digging, require a great expenditure of labour and capital. Expensive machinery has to be constructed, and the produce raised is bulky, and therefore the cost of conveying it to market is extremely great. Australia is, no doubt, very rich in other minerals besides gold; many of her copper mines are far more productive than those which yield large profits in Cornwall; but one single fact will show the difficulty of working an Australian mine with advantage. The price charged for bringing the ore from an Australian mine called the North Rhine Copper Mine, to port, is 5*l.* a ton, whereas the average price which the smelters pay for English copper ore does not exceed this amount.

Gold mining has, however, to contend with no such difficulties. The Australian gold-digger requires little capital except a few simple tools, and sufficient money to pay his passage out; and therefore, in embarking in this industry, he risks little more than a certain amount of time and labour. It therefore need not be a matter of surprise, that the gold discoveries immediately attracted thousands of emigrants to Australia; the labour which she required was thus supplied, and her future progress was consequently insured.

*whilst it  
requires  
little  
capital.*



**BOOK IV.**  
**TAXATION.**



## CHAPTER I.

## ON THE GENERAL PRINCIPLES OF TAXATION.

IT is customary for writers on political economy to discuss taxation as a part of the separate division of the science which has been termed by Mr. Mill, 'the influence of government.' Now, it is no doubt quite true, that every act which is done by a government, every law which is brought into operation, and every measure which is enacted, exerts, either directly or indirectly, some influence on the economy and wealth of the nation. It might therefore appear that every law and every act of Parliament might be appropriately discussed in a treatise on political economy. But if such a course were adopted, the range of our subject would be practically unlimited. We therefore think it quite necessary that some restriction should be placed upon the scope of this part of our enquiry; a convenient boundary line will be drawn, if we confine our investigations to measures, the specific object of which is to obtain money, which the government either spends itself, or directs to be expended by others. It is manifest that such measures are included in the term taxation, meaning by the word, local as well as general taxation; for taxation has no other object in view except to obtain money. The taxes, when collected, may be devoted to any purposes which the government may direct; but a person is never made to pay a tax, in order that some subsidiary end may be attained.

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*Taxation is generally discussed under the head of 'the Influence of the Government.'*

*Reasons for restricting this branch of the enquiry.*

As an example it may be mentioned, that a tax on spirits *Taxes may*

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CH. I.

*produce various effects, of which we only consider those which influence the production, distribution, and exchange of wealth.*

raises their price; the consumption of an intoxicating beverage is thus discouraged, and the tax may be therefore said to promote temperance. But anxious as our government may be to prevent drunkenness, the tax on spirits is imposed for the sole purpose of obtaining revenue. It is, of course, fortunate if the tax effects another subsidiary object, and improves the morality of the people. But if the revenue which is raised by the spirit-duties should not be wanted, no one but a fanatic would think of retaining these duties merely for the purpose of discouraging drunkenness. Even if such a proposition were seriously entertained, it would involve considerations which would belong not to the science of political economy, but to the general science of ethics. Political economy has simply to explain what will be the influence which will be exerted by any particular measure upon the production, the distribution, and the exchange of wealth; and this science is unwarrantably trespassing upon the domains of other sciences, if it attempts to decide whether a particular measure may be right or wrong. An error of investigation is therefore committed, if political economy is ever permitted, in the slightest degree, to clash with the precepts of ethics or morality. We therefore think it advisable to avoid discussing, in a treatise on political economy, those acts of a government which are intended to effect some object which is not directly concerned, either with the production, the distribution, or the exchange of wealth, but which may, nevertheless, at the same time exert some influence upon the general economy of the nation. We obtain several advantages by adopting this course.

*Our enquiries are thus limited, so as to avoid any considerations foreign to Political Economy.*

It may, in the first place, be remarked, that a necessary limitation is thus put upon the scope of our enquiries; and, secondly, we avoid treating subjects in a manner which is necessarily imperfect; because a full discussion of them would involve considerations foreign to political economy. For instance, improvements in the laws of inheritance, of

partnership, and of bankruptcy, may produce some very important effects on the commerce and trade of the country. But any special law-reform involves so many other considerations besides those which are regarded as economic, that a separate treatise would be required properly to expound and defend the change which may be proposed. Thus the laws of inheritance cannot be discussed without the preliminary question being solved, whether the rights of primogeniture should or should not be respected, and, in order to solve this question, an appeal must be made to history, and to various other branches of knowledge. Again, the restrictions which are imposed by government upon railway companies, are intended to protect the lives and to preserve the comfort of the passengers; whether a government ought to concern itself with such objects, would be an appropriate topic for discussion in a treatise on the province of government. The regulations, however, which a state enforces upon a railway company, produce certain economic results, and these results might of course be investigated on the principles of political economy. But we here avoid discussing such a subject; because, in attempting it, considerations which belong to political economy would only occupy a subordinate position, compared with those considerations which pertain to other departments of knowledge. The principles of political economy cannot therefore be deduced from investigating such subjects as these, although they may supply instructive economic problems, which the student may with advantage endeavour to solve, in order to familiarise himself with the principles of the science. We, therefore, trust that enough has been stated to justify us in limiting the present portion of this treatise to an enquiry into those questions which relate to taxation.

It is evident that a government cannot possibly exist, unless it possesses a revenue; its laws, for instance, become a dead letter, unless the penalties which the law

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CH. I.

*Governments are compelled to raise taxes.*

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sanctions are enforced on those who disobey. The people who enforce these penalties, are servants of the State, and they therefore require some remuneration for the duties which they perform. Hence the State must possess a revenue, in order to pay its various agents and servants. This revenue may be obtained by rapine and pillage, but if such means are resorted to, the revenue is not said to be raised by taxation; for the signification which is attached to this word implies, that the right to levy a tax is given by law, and that the law not only enacts by what classes of the community the tax should be paid, but also specially states the penalty which any one will incur, if he refuses to pay the tax. The question, therefore, may be at once suggested, Are there any principles which will enable us to decide whether any particular tax is just or unjust, defensible or indefensible? Now Adam Smith considered, that all the principles of taxation might be deduced from the four following rules, or precepts, which, since his day, have become almost classical; so much so, that scarcely any one has dared to dispute them. These four rules, which have been termed canons of taxation, shall be described in Adam Smith's own words.

*Are there any principles which will enable us to decide on their justice?*  
*Adam Smith's Canons of Taxation.*

*Taxes should be in proportion to the means of the taxed.*

'1st. The subjects of every State ought to contribute to the support of the government, as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State. In the observation or neglect of this maxim consists, what is called the equality, or inequality of taxation.'

*They should be certain.*

'2nd. The tax which each individual is bound to pay, ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put, more or less, in the power of the tax-gatherer, who can either aggravate the tax upon any



obnoxious contributor, or extort by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence, and favours the corruption of an order of men who are naturally unpopular, even when they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, as appears I believe from the experience of all nations, is not near so great an evil, as a very small degree of uncertainty.'

'3rd. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land, or of houses, payable at the same time at which such rents are usually paid, is levied at a time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient to him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty too, either to buy or not to buy as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.'

'4th. Every tax ought to be so contributed as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State. A tax may either take, or keep out of the pockets of the people, a great deal more than it brings into the public treasury, in the four following ways. 1st. The levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. 2nd. It may divert a portion of the labour and capital of the community from a more to a less productive employment.

*They should be levied at the time most convenient to the taxed.*

*They should take as little as possible beyond the amount which comes into the treasury.*

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CH. I.

3rd. By the forfeitures and other penalties which those unfortunate individuals incur, who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have derived from the employment of their capitals. An injudicious tax offers a great temptation to smuggling.

4th. By subjecting the people to the frequent visits, and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression.

*Summary  
of these  
four rules.*

In order to assist the reader's recollection, these four rules or principles of taxation may be briefly described as follows:—

1st. Taxation should possess equality.

2nd. There should be no uncertainty with regard to the amount to be levied.

3rd. The tax should be levied at the most convenient time, and in the most convenient manner.

4th. The State ought to obtain as much as possible of the whole amount which is really levied from the tax-payer.

*The truth  
of the last  
three is  
indisput-  
able.*

The importance of the last three of these four rules, after the remarks which have been made upon them by Adam Smith, will be so generally admitted, that we need not here farther dwell upon them; they will receive additional illustration, when we proceed to discuss various special taxes. It is, however, very necessary, that the first of these four principles should be very clearly stated; we will therefore endeavour to explain what is really meant by equality of taxation, and we will also enquire as to the best mode of securing such equality.

*Equality  
of taxation  
is a term  
incapable of  
definition.*

Equality of taxation is one of those expressions which, although in constant popular use, cannot, without great difficulty, be accurately defined. Some people seem to think it sufficient to state, that equality of taxation is secured when every person in a community is taxed according to his means; but to tax a person according to his means, is an expression which does not convey a clearer conception

than equality of taxation. At any rate, the precept that people should be taxed according to their means, would give the statesman as little assistance in framing a just system of taxation as if he were told to obey the maxim, that equality of taxation must be secured; for insuperable difficulties at once suggest themselves, if any attempt is made to decide whether one person's means are, or are not, equal to another's. A and B, we will suppose, are two land-owners; each of them possessing a freehold estate worth 1,000*l.* a year. A is a bachelor, and never intends to marry; B has ten children, besides a great number of poor relations depending upon him. Now, unless the signification of words was severely strained, it could not be maintained that B's means were equal to those of A; and yet no system of taxation which has ever been proposed, would exempt B from a tax which A was bound to pay, simply on the ground that B had a large family, and A had no children. In fact, under every system of taxation which prevails in any country at the present time, B would pay a greater instead of a smaller amount in taxes than A; for B, having a larger establishment than A, would purchase a greater amount of the commodities which are taxed. If, for example, these two individuals lived in our own country, B, on account of his large family, would be sure to purchase more tea and sugar than A, and probably also, more beer, wine, and spirits; B would also require a larger house than A, and a greater amount of local taxation would consequently be levied upon him. It, therefore, appears, with regard to those taxes which are levied upon commodities, that no attempt can be made so to adjust them that each individual shall be taxed in proportion to his means; and, consequently, if taking an individual in proportion to his means is to be the test of equality of taxation, inequality seems to be inseparably associated with the great majority of taxes that are imposed.

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CH. I.

*Difficulty of interpreting it when applied to married men and bachelors.*

But it may, perhaps, be said, that if taxes on commodities

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CH. I.

*The unequal pressure of taxes on commodities cannot be redressed by an income-tax.*

exert upon different individuals such an unequal amount of pressure as that which has been described, it then becomes all the more important, that equality of taxation should be restored by a proper adjustment of an income-tax. We shall presently discuss the income-tax in detail. It will be here only necessary to state, that no plan of levying the income-tax which has ever been proposed would have the slightest effect in causing the two individuals, A and B, whom we have above described, to be taxed according to their means. Although many have advocated the policy of levying a different rate of income-tax on various kinds of income, yet no one has ever even suggested that two incomes in every respect of the same kind should be differently taxed, because the one income belonged to a bachelor, and the other to a man with a large family. It must, therefore, be evident that equality of taxation cannot mean the taxing of people according to their means, because this is an end which it is useless even to attempt to attain.

*Unsatisfactory nature of the theory that taxation should be proportionate to the amount of protection derived from the State.*

There is another test of equality of taxation, which has been regarded by numerous writers as perfectly satisfactory. These writers affirm that the revenue of a government is employed in protecting the lives and properties of its subjects, and consequently the amount which each individual contributes to the revenue ought to be proportioned to the benefit which he derives from the protection of the State. But if equality of taxation is to be secured in this manner, it would not only be necessary to tax the property which is protected, but it would also be necessary to impose a poll-tax upon every member of the community, inasmuch as the life of every individual is of some value to himself; and therefore, so far as a government protects person, as well as property, it confers the same benefit upon each member of the community. It would, however, be a manifest absurdity to propose such a poll-tax, and therefore, this scheme for securing equality of taxation,

though it has an air of plausibility about it, is scarcely worthy of serious consideration.

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CH. I.

It does not appear at all certain that Adam Smith distinctly conceived a plan for deciding whether, in any particular case, equality of taxation is, or is not, secured; for his language, when apparently clear, sometimes fails to convey a definite meaning. His words are these: 'The subjects of every State ought to contribute to the support of the government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.' Upon this fundamental principle, it is repeatedly said that every system of taxation ought to be based. Although we hesitate to speak lightly of that which has been so long revered, yet we believe it will be found that, if the language employed by Adam Smith is closely analysed, his first principle of taxation is not only expressed in words which are obscure, but that it is almost useless for any purposes of practical application. It will be observed that Adam Smith, in the first place, affirms that the subjects of a State ought to contribute to the support of the government in proportion to their respective abilities, and then he professes to make this statement of his principle more clear by enunciating it in different terms; for he explains that 'contributing to a government in proportion to a person's abilities,' is the same thing as 'contributing in proportion to the revenue which he enjoys under the protection of the State.' We consider that these two statements of the principle, if they have any precise signification, do not mean the same, but entirely different things.

*Adam Smith's expressions are indistinct, for they imply that taxation ought to be proportioned to revenue and also to ability to pay.*

*which are different and inconsistent tests.*

Adam Smith apparently intends by the first statement of his principle, to give an implied assent to the opinion, that equality of taxation cannot be secured, if simply the income, or property which may be possessed by each individual is considered, without taking any notice of various

BOOK IV.  
CH. I.

*Ability to pay should not be considered as proportionate to income,*

*and provides no test of equality.*

other circumstances which may cause any particular tax to be really much more burdensome to one individual than another, although they may possess equal incomes. Hence this question is at once suggested, What does Adam Smith wish to signify by the expression 'ability to pay'? Should 'ability to pay' be estimated by the amount of wealth which a man may possess? If so, a man whose income is only 50*l.* a year, ought to pay just half as much in taxation as a man whose income is 100*l.* a year. We do not assert that, if taxation were so adjusted, it would be fair and equitable, but we wish to point out to our readers that different significations are sometimes attached to the expression 'ability to pay;' and Adam Smith does not definitely tell us which signification ought to be accepted. Some people have urged that, if a certain income, which it may be assumed is 50*l.* a year, is only just sufficient to provide the possessor of it with the bare necessities of life, then he who has such an income cannot be said to have any 'ability to pay' a portion of it in taxation. Adam Smith probably did not make any allowance for such considerations as these, and we will therefore suppose that, in his opinion, a system of taxation would be perfectly equitable, if it could be so arranged that an individual whose income was 100*l.* a year, should contribute just twice as much to the revenue of the State as an individual whose income was only 50*l.* a year. We say that this was probably his opinion, because he endeavours more fully to elucidate his principle by affirming that each individual ought to contribute in proportion to the amount of revenue which the State protects for him. But even admitting that this is the meaning of Adam Smith's principle, we may farther ask, Does it provide any measure or standard of equality of taxation by means of which the justice of any particular tax might be ascertained? Let us test the practical utility of this principle, by applying it to our own fiscal system.

It has been previously affirmed that equality of taxation passes out of the legislator's control, if it is necessary to raise a revenue by taxing commodities. The amount which each individual contributes to a tax on commodities must be entirely regulated by the consumption of this commodity, and can, in no way, be apportioned to the ability of each individual to pay the tax. The inequality which, according to Adam Smith's definition, is thus introduced, cannot be remedied by an adjustment of that portion of the revenue which is raised by direct taxation. Although it may be a debateable question, whether an income derived from some temporary source, such as a profession, should be taxed at the same rate as an income which is derived from freehold land, yet no one has ever thought of proposing, that two incomes of the same kind and the same amount should be differently rated, because other taxes may levy from the possessors of these two incomes amounts which are not proportioned to their respective abilities to contribute to the revenue of the State.

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CH. I.

*Taxation on commodities renders it impossible to tax according to ability to pay.*

We have made these remarks for the purpose of showing that Adam Smith's first rule is of no practical use, if it is applied to test the justice or injustice of any one particular tax; in fact, we think it very important to establish this point, because we conceive that, upon this first rule of Adam Smith's, many errors with regard to taxation have been based. Examples of such errors are frequently met with in the various proposals which are made for the adjustment of the income-tax. Thus it is often affirmed that an income which is derived from a temporary source, ought not to be taxed at the same rate as an income arising from a permanent source; because it is argued that the owner of a temporary income has not the same ability to pay the tax as the possessor of a permanent income, since the former has to set aside a larger portion of his income to provide against future contingencies than the latter. In our opinion such an argument involves a

*Hence Adam Smith's first rule is of no practical use as a test of the justice of a tax.*

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CH. I.

fallacy; it would no doubt be perfectly fair to apply Adam Smith's first rule to one particular tax, such as the income-tax, if it could also be applied to every other tax which is imposed. We have, however, shown that such a general application of this rule is impossible; it does not therefore follow that the inequality which is necessarily associated with some taxes, would be any way diminished by attempting so to arrange one particular tax, that each individual should contribute to it in proportion to his ability to pay it.

*Exemplification of the uselessness of the rule as applied to a system of taxation.*

In order to illustrate this remark, let it be assumed that the whole revenue of the State is obtained by a 20 per cent. income-tax, and by a high duty on some article of general consumption, such as tea. Let it also be farther assumed, that there are two individuals, A and B, whose incomes are respectively 500*l.* and 1,000*l.* a year. If A and B have the same number of children, they will probably purchase nearly the same quantity of tea, and, therefore, they will contribute, as far as the tea-duty is concerned, nearly the same amount to the revenue, although the ability of one to pay the duty is twice as great as that of the other. Now, this inequality of taxation would manifestly remain untouched, if the income-tax were levied in strict accordance with Adam Smith's first rule, and if each of these two individuals were consequently made to contribute to the income-tax in proportion to his ability to pay. In order to remove the inequality which is connected with the tea-duty, it would be necessary to make some kind of compensation to the possessor of the smaller income, and, therefore, a smaller rate of income-tax ought to be levied from the possessor of the income of 500*l.* a year, because he contributes a larger proportion of his income to the tea-duty, than is contributed by the owner of the income of 1,000*l.* We readily admit that such an attempt to adjust the burden of taxation could never produce perfect equality; but it is only by adopting such



a course, that even an approximation towards equality of taxation can be attained. It therefore appears that, although Adam Smith's first rule of taxation ought not, under any existing revenue system, to be applied to any special tax, yet the principle is no doubt true, when expressed in the following manner:—The aggregate amount which each individual pays in taxes, ought to be in proportion to his ability to contribute to the revenue of the State.

BOOK IV.  
CH. I.

*True statement of the principle.*

In the remarks which we now proceed to make upon various special taxes, we shall attempt to show that the equality of taxation which this principle is intended to define, can never be perfectly secured. It may, however, be approximately obtained by giving to one class, with regard to some taxes, certain advantages which will, in a rough kind of way, provide a compensation for disadvantages which the same class may suffer from inequalities of taxation, perhaps inseparably associated with other portions of the national revenue.

*Equality of taxation may be approximately obtained.*

## CHAPTER II.

## ON THE INCOME-TAX.

BOOK IV.  
CH. II.

*The consid-  
eration of  
the income-  
tax involves  
many ques-  
tions.*

**WE** select the income-tax, as the first of those taxes whose effects we shall specially investigate; because, at the present day, there are many points with regard to the levying of the income-tax which are keenly disputed by financiers and political economists of high authority. We are, moreover, induced to adopt this course, because, in the last chapter, we had frequent occasion to refer to the income-tax, in order to illustrate our remarks on the general principles of taxation. Since we are about to discuss many questions which are, at the present time, exciting great popular interest, we wish to assure our readers that we shall anxiously avoid expressing any opinion which has a political bias. It would, for instance, be extremely inappropriate in this treatise to make any remarks concerning either the policy of our present expenditure or the administration of our national finances; these are questions for the politician. The principles of political economy cannot decide what expenditure ought to be maintained, although they may enable the statesman to trace the effects of any tax which may be imposed, and thus give him the power of selecting those taxes which are most equitable, and which will cause the least loss and inconvenience to the nation at large.

*Ought tem-  
porary in-  
comes to be*

The chief point of dispute concerning the income-tax is simply this: Ought incomes arising from a temporary source to be taxed at the same rate as incomes which

may be regarded as permanent? There is no doubt that the greater number of people who have written on this subject express a very decided opinion, that the barrister who is deriving 1000*l.* a year from his profession, ought not to pay so high a rate of income-tax, as the landowner who receives 1000*l.* a year from freehold land. The arguments which are urged in support of this opinion may be divided into two classes; the first of these classes is based upon arithmetical reasons, whereas the other set of arguments appeal to the general principles of taxation. Let us, therefore, first consider the arguments which are supposed to be supplied from arithmetical considerations.

BOOK IV.  
CH. II.

*highly as  
permanent  
incomes!*

It is urged that the income of a professional man ought to be regarded as an annuity for a certain term of years. It is therefore maintained that a man who derives 1,000*l.* a year from some permanent source of income ought to pay a higher rate of income-tax than a man who only enjoys an annuity of 1000*l.* for a certain number of years, which, for purposes of illustration, we will suppose to be twenty. We will first discuss this question as one of pure arithmetic, and we will then consider the plea that is urged in favour of an annuitant, on the ground that he is not so well able to pay the income-tax which is now levied upon him as is the possessor of a permanent income.

*Statement  
of the case.*

The arithmetical argument will be most clearly elucidated by an example. Let it, therefore, be assumed that the current rate of interest is three per cent., and that two brothers, A and B, each inherit from their father 10,000*l.* A invests his money in the funds, and the rate of interest is three per cent.; he will, therefore, obtain a permanent income of 300*l.* a year. B invests his 10,000*l.* in purchasing an annuity of 600*l.*, continued during his lifetime. Let it be further assumed that the income-tax is a shilling in the pound. According to the present mode of levying the tax, A would pay 15*l.* a year and B would pay 30*l.* a year; and the question arises, Is this equitable,

*Arith-  
metical  
argument.*

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CH. II.

*If the income-tax were permanent, no injury would be inflicted by taxing temporary and permanent incomes at the same rate.*

considering that A and B both possess the same amount of property? In order to answer this question, let it be in the first instance supposed that the income-tax is a uniform permanent charge, and that the government is willing to redeem the tax. It is upon this hypothesis quite evident, that an annuity of 600*l.* a year for B's life-time, is exactly equal in value to an annuity of 300*l.* a year continued for ever, supposing the rate of interest to be three per cent.; for either of these annuities can be obtained by the investment of 10,000*l.* But if the income-tax were permanently fixed at the uniform rate of five per cent., A's 10,000*l.* would have to pay an income-tax of 15*l.* a year for ever, because he is supposed to invest it in the form of a permanent annuity. B's 10,000*l.*, however, would only have to pay 30*l.* a year during his life-time, because his annuity of 600*l.* a year will cease at his death. If A and B wished to redeem the income-tax on the 10,000*l.* which they respectively possess, they would each have to pay exactly the same sum to the government; for the present value of an annuity of 30*l.* a year to be continued during B's life-time must be equivalent in value to a permanent annuity of 15*l.* a year, because it has been assumed that the present value of these annuities is equal, when they have been both multiplied by twenty, or in other words, when they are respectively 600*l.* and 300*l.* a year each. If, therefore, the income-tax was permanent and uniform, it appears to us on mere arithmetical grounds that a temporary income such as an annuity for a limited term of years ought to be taxed at the same rate as a permanent income. If it is supposed in the example which we have just been discussing, that permanent incomes are taxed at the same rate as temporary incomes, then A and B would have to pay the same amount to redeem the income-tax upon the 10,000*l.* which they inherited from their father. Such an arrangement would be just and equitable, since we can conceive no valid reason why B, because he decides

on investing the money in a temporary annuity, should pay a less amount to redeem the tax than A, who invests the money in a permanent income. But an undoubted injustice would be inflicted on A if temporary incomes were taxed at a lower rate than permanent incomes.

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Let it, for instance, be assumed that a permanent income pays a tax of five per cent., whereas a life-annuity annually pays two and-a-half per cent. According to this assumption, B would only have to pay half as much as A in order to redeem the income-tax on 10,000*l.* Why, again, we ask, should not the amounts which A and B have both to pay be the same, when it is remembered that A and B both originally possessed 10,000*l.*, and at their own free will chose different kinds of investment? We, therefore, think the above example, simple as it may appear, affords a conclusive arithmetical argument that, if the income-tax were permanent and uniform, temporary incomes ought to be taxed at the same rate as permanent incomes. The conclusion, however, which has just been established is based upon a particular hypothesis; and it remains for us to enquire whether the same conclusion holds true, when an income-tax is neither permanent nor uniform.

*A difference in the rate would be unjust to the possessor of a permanent income.*

Whenever the income-tax has been imposed in our own country, statesmen have always most explicitly affirmed that it is only resorted to as a temporary expedient. In order to give a technical form to these assertions concerning the temporary character of the income-tax, the continuance of this tax from year to year is based upon a special Act of Parliament. The people are, moreover, repeatedly assured by successive Chancellors of the Exchequer, that the income-tax shall be reduced immediately the finances of the country will permit such a reduction. It is, therefore, evident that the income-tax is neither permanent nor uniform; for no other tax in our whole fiscal system is so temporary in its character, or so varying

*The income-tax is, however, neither permanent nor uniform in fact.*

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in its rate. When this is borne in mind, it may seem that the views we have above expressed cannot be maintained, and that temporary and permanent incomes ought no longer to be taxed at the same rate.

*If the income-tax is only for a fixed period the temporary income should be taxed at a lower rate.*

In order to settle this point, let us revert to our previous example, and suppose that an income-tax of five per cent. is imposed for five years, and that A and B are two individuals who inherit 10,000*l.* each from their father. Let it also be further assumed that A invests his money in the funds and obtains an income of 300*l.* a year, and that B purchases with his 10,000*l.* a life-annuity of 600*l.* If, therefore, permanent and temporary incomes are taxed at the same rate, A will pay five times 15*l.* or 75*l.* during the five years that the income-tax is supposed to be continued, whereas B will pay 150*l.* in income-tax. Now it may be urged that this cannot be just; for why should B pay twice as much in income-tax as A, since they both originally have the same amount of property which they choose to invest in a different manner? Hence it appears to us quite indisputable, that temporary incomes ought to be taxed at a lower rate than permanent incomes, if the income-tax can be really considered to be imposed for only a limited period, which we have here assumed to be five years. Experience, however, incontestably proves that the time during which the income-tax will be continued can never be predicted even with approximate accuracy. This uncertainty, consequently, renders it impossible to frame any equitable method of adjustment based upon the hypothesis that the tax will not be continued for a longer period than that which is originally proposed. For let us see what would have been the result if such a method of adjustment had been adopted in our own country.

*But the period is never really fixed.*

*Results which follow from different rates in our own country.*

In the year 1854 the Chancellor of the Exchequer confidently affirmed, that the income-tax would be gradually reduced, and would be entirely abolished in the year 1860. Here, then, a case is presented, exactly similar to that

which we have been just discussing; for, reverting to our original example, we may assume that the two brothers A and B come into possession of 10,000*l.* each in the year 1854. A invests his 10,000*l.* in the funds, and obtains a permanent income of 300*l.* a year, whereas B purchases with his 10,000*l.* a life annuity of 600*l.* It is therefore manifest that, if temporary incomes are taxed at the same rate as permanent incomes, B will each year contribute twice as much to the income-tax as A. Now if the income-tax is only a temporary impost which is certain to be repealed in the course of six years, B might very fairly urge that, since his income is derived from the same amount of property as his brother's, they ought to contribute the same amount to the income-tax. B might also further urge that, if he and his brother both wished to redeem the income-tax upon their 10,000*l.*, they ought to pay the same amount for this redemption; B would however be compelled to pay twice as much as A, in order to redeem the tax, if temporary incomes were taxed at the same rate as permanent incomes.

Those who believed that the income-tax would inevitably expire in the year 1860, would have found it difficult to answer the argument which we have just supposed to be advanced by the individual B. But if such a claim in favour of temporary incomes had been admitted, let us see what would have been the result. The year 1860 comes; the income-tax is neither repealed nor reduced, but is, on the contrary, greatly increased, and even those financiers who indulge in the most reckless assertions, would now scarcely venture to hazard a prediction as to the period when the income-tax is likely to be reduced, much less to be entirely remitted. We therefore maintain, that an equitable adjustment would not have been secured, but, on the contrary, a great injustice would have been done to the possessors of permanent incomes, if, in the year 1854, our statesmen, acting on the supposition that the income-

*The uncertain duration of the income-tax prevents an equitable adjustment between permanent and temporary incomes.*

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tax would only be continued for six years, had capitalised all temporary incomes, and then so arranged the income-tax, that the same amount of property, though differently invested, should contribute the same amount to the income-tax. We will adduce another example, in order more clearly to illustrate the injustice which such a method of adjustment would have entailed.

*A further example of the injustice resulting from an attempted adjustment.*

Let it be assumed that one of the brothers, B, invests his 10,000*l.* in the purchase of an annuity of 2000*l.*, to be continued for six years. The other brother A still invests his 10,000*l.* in the funds, and obtains a permanent income of 300*l.* a year. Let it also be assumed, that in 1854 the income-tax was five per cent., and that it was to remain at this amount until the tax was entirely repealed in 1860. If permanent incomes were taxed at the same rate as temporary incomes, then A during these six years would only contribute 90*l.* to the income-tax, whereas B, who has purchased an annuity of 2000*l.*, would contribute 600*l.* Now there can be no doubt but that such a result would be extremely unfair, if the income-tax was certain to be repealed at the end of the period originally fixed. We have before remarked, that A and B, each inheriting 10,000*l.*, the tax ought not to take more from one than from the other; it would therefore seem, that B as well as A ought to contribute only 15*l.* a year, and consequently B's income would only be taxed at the rate of  $\frac{1}{4}$  per cent. The equity of such a method of adjustment entirely depends on the income-tax being repealed at a fixed definite period. Experience however proves, that the time for the repeal of this tax can never be definitely fixed; for, when the year 1860 arrived, the repeal of the income-tax seemed indefinitely remote; according therefore to the method of adjustment which has been just described, B's 10,000*l.* invested in an annuity would in the aggregate only contribute 90*l.* to the income-tax; whereas A has already contributed the same amount, and will still have to pay income-



tax upon his 300*l.* a year, during the whole time that the tax may happen to be continued. We therefore think, that the most simple and the most just plan is to consider the income-tax, and every other tax, as permanent. The extreme uncertainty which exists with regard to the charges which may be made upon the revenue of a country, renders it impossible for any one to foresee when a particular impost may be reduced or repealed. But if the income-tax is regarded as a permanent charge, the whole weight of the arithmetical argument is opposed to the opinion, that there should be any difference in the rates imposed upon temporary and permanent incomes. Besides the arithmetical arguments which support such a conclusion, other subsidiary reasons may be advanced in favour of a uniform rating.

In the first place it may be remarked, that a uniform income-tax can be collected with great facility, and at comparatively little expense; there would, however, be endless complications and confusion, if a method of adjustment was attempted, based on the plan of capitalising temporary incomes. For instance, a different amount of income-tax would have to be levied each successive year from individuals who possessed annuities for a limited period, since the capitalised value of a temporary annuity diminishes each successive year. Again, a great variety of complicated and uncertain rules must be laid down, for the purpose of estimating the capitalised value of incomes derived from speculative investments, such as mining. The difficulty of estimating the capitalised value of incomes arising from trades and professions would involve still more complicated calculations. Thus the barrister of forty, who has a professional income of 1000*l.* a year, ought to be taxed at a higher rate than the barrister of sixty, who has the same professional income. The income of the one is likely to continue very much longer than the income of the other, and, therefore, the capitalised value of the former

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*The income-tax should be regarded as permanent.*

*An adjustment is further made impracticable by the complicated arrangements which it would necessitate.*

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*Example in the difficulty of comparing a barrister's with a solicitor's income.*

income is very much greater than that of the latter. Numerous other difficulties may be readily suggested; the income of the barrister is wholly lost to his family at his death, but the income which a solicitor obtains from his business may be partly enjoyed by his family after his decease, since the good-will of his practice may be either sold, or some person may be taken into the business as a partner, who will pay the family a certain annual sum. The capitalised value of a solicitor's professional income must be therefore greater than the capitalised value of a barrister's income of the same amount. Hence, it would appear that incomes derived from one branch of the law, ought to be taxed at a higher rate than incomes derived from other branches of the profession. The settlement of such intricate questions as these would give to the income-tax some of the worst qualities that belong to a tax; for it would be uncertain in its amount, and it would be so difficult to adjust in the various special cases which may arise, that a whole army of income-tax collectors and commissioners would have to be employed; consequently the expense and inconvenience of collecting the tax would be enormous. These considerations strengthen our conviction, that the income-tax ought to be levied at a uniform rate, and we entertain this opinion with all the more confidence, because the arithmetical arguments that can be adduced certainly do not oppose, but rather favour, the present method of levying the tax. We, however, are quite aware, that the principle of a uniform income-tax is opposed, for reasons which are quite independent of any arithmetical calculations. These reasons which we now proceed to consider are, in fact, based upon that first great maxim of Adam Smith, which is popularly thought to define equality of taxation.

*Arguments in favour of adjustment*

The persons who oppose a uniform income-tax maintain that, whether a temporary and uncertain income ought to be taxed at the same rate as a permanent and certain

income, is a question which must be settled independently of arithmetical considerations. For instance, it is frequently affirmed, that an income derived from a trade or profession ought to be taxed at a much lower rate than an income obtained from some such permanent and certain source as the funds, or landed property. When it is asked why this distinction should be made, it is considered quite sufficient to reply, that the tradesman or professional man who obtains an income of 1000*l.* a year cannot so well afford to pay the income-tax as the individual who receives an income of the same amount from the funds, or from landed property. Now this is undoubtedly true, since the income of the tradesman or professional man is uncertain, and may be altogether lost in the event of his death; whereas the possessor of a permanent income can at his death leave it intact, to be distributed amongst his family. It is, therefore, indisputable, that the income-tax ought not to be levied at a uniform rate, if the principle is admitted that each single tax should be so adjusted that every individual should contribute to it in proportion to his means, or, in other words, in proportion to his ability to pay the tax.

It has been stated in the preceding chapter, that this principle is in the abstract perfectly true, and it would no doubt secure equality of taxation, if it could be practically applied to adjust all the taxes that are imposed. But we have already shown the impossibility of this, by alluding to various indirect taxes. No method of adjustment will cause individuals to contribute to taxes on commodities in proportion to their means; the amount which is levied from each individual, by these taxes, depends upon the quantity of a commodity which he may consume. Hence we have concluded that equality of taxation is not necessarily promoted by adjusting some particular tax in such a way that each individual would contribute to it in exact proportion to his means. For instance, if the

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*independent of the above arithmetical considerations.*

*The principle of equality, though true in the abstract, is impracticable in execution and unfair if applied to one tax alone.*

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income-tax were adjusted in strict accordance to this rule, every labouring man in the country ought undoubtedly to contribute his quota to the tax; and yet the introduction of such a change into our present fiscal system would certainly not promote equality of taxation. The labouring classes are most justly relieved from the income-tax, because, in the first place, it would be difficult to collect it from them, and in the second place, they contribute to such a tax as the duty on tea a much greater amount, in proportion to their means, than is contributed by the wealthier classes of the community. The remission of the income-tax upon such incomes as are ordinarily possessed by labouring men, affords some compensation for the inequality of taxation which is necessarily associated with such an impost as the duty on tea. Inequality of taxation may be therefore rather increased than prevented by applying to any particular tax such a rule as that we have

*Equality of taxation to be aimed at by contemplating the revenue as a whole.*

just noticed. Equality of taxation can be best secured, not by botching and patching each single tax, but by contemplating the revenue as a whole. If it is found that any tax presses unequally on any particular class, it is almost invariably better not to attempt to adjust the tax by any complicated arrangements; the inequality of taxation should be remedied by placing the particular class whom it prejudicially affects, in a relatively advantageous position with regard to some other tax. Thus the tea-duty presses very unfairly upon the working classes; but it is in every respect more desirable to compensate them for this inequality of taxation, by a remission of the income-tax, than to afford them compensation by attempting to make the tea-duty so equitable in itself, that every individual should contribute to it in proportion to his means. Various proposals for making the tea-duty a more equitable tax have been, and may be, suggested; for instance, one source of inequality would be removed, if the tea-duty could be made *ad valorem*. The duty which

*Some taxes, such as that on tea, cannot be made to operate fairly by themselves without producing greater counterbalancing evils.*

is now paid upon the tea consumed by the poor man is at least three times as great, in proportion to the value of the tea, as is the duty which is paid upon the superior qualities of tea. It has, however, been found almost impracticable to levy *ad valorem* duties upon such a commodity as tea; it was soon proved that these *ad valorem* duties entailed a series of complicated arrangements, which materially interfered with the trade, and, consequently, the tax when made *ad valorem*, though apparently more just, was really more disadvantageous in its aggregate results than it was before. Let us therefore enquire whether similar obstacles would not oppose all the schemes which are often favourably received, for rendering the income-tax more equitable.

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Almost insuperable obstacles at once suggest themselves, if an attempt is made to levy the income-tax in such a way that each individual should contribute to it in proportion to his means. It may be at once asked, How is it possible to supply any test or measure of the amount which a man can afford to pay towards a tax? Certainly such a test or measure is not provided by the nature of the source from which an income may be derived; for the income of almost every individual is obtained from a great variety of different sources; therefore some portion of his income would be permanent, and another part of it may be temporary. Consequently it is impossible to judge of an individual's means, by considering only one part of his aggregate income. Thus A may possess 2000*l.* a year in landed property, and may, in addition to this, derive 1000*l.* a year from his profession. Another individual, B, may possess only 500*l.* a year in landed property, but has a permanent income of 1000*l.* a year from the funds. On what grounds do those who oppose a uniform income-tax affirm that the 1000*l.* a year which B obtains from the funds, should be taxed at a higher rate than the 1000*l.* a year which A is supposed to realise from his profession?

*Impossibility of levying the income-tax so as to make every one contribute according to his means.*

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CH. II.

B is a much poorer man than A, and it therefore cannot be maintained that B, with regard to a portion of his income, should be taxed at a higher rate than A, because the former can better afford to contribute to the tax than the latter. In addition to the difficulty which has been just suggested, it would be necessary to fix the rate at which each kind of income should be taxed by arbitrary rules, which would be subjected to constant discussion and revision. With regard to professional incomes, it has already been said, that the solicitor whose practice is worth 1000*l.* a year is a far richer man than the barrister whose practice is of the same value; since a solicitor can either sell the good-will of his business, or leave it to his children, whereas the practice of a barrister can neither be sold nor handed over to another. If, therefore, a permanent source of income is taxed at the rate of five per cent., what principles can be found which will tell us the amount of income-tax which ought to be levied from the incomes of solicitors and barristers respectively? These, and various other considerations which might be adduced, lead us to the conclusion, that the present method of levying the income-tax cannot with advantage be materially changed. The income-tax, as it is now levied, avoids those difficulties and complications which we have noticed, and it must always be remembered that, if the arrangements connected with any tax involve any intricate details, the collection of the tax must be expensive. If, moreover, an attempt should be made to equalise this tax by any complicated process of adjustment, many practical difficulties would be sure to arise, which would probably lead to disputes and costly litigation; and thus even those will become more discontented, who are specially intended to be benefited by the adjustment of the tax.

*The present system is probably the best.*

*Meaning of the term,*

As we have now remarked at considerable length upon a question concerning the levying of the income-tax, which is at the present day exciting great popular interest,

we will next proceed to remark upon that which is technically termed the incidence of the tax. As we have not previously employed this word, it will be necessary to define it. Now it is quite evident that a tax is frequently not really paid by the person from whom it is levied; for instance, the malt-duty is nominally paid by the maltsters, although it is really paid by the consumers of malt, since the price of malt is increased by the exact amount of the duty which may happen to be imposed. Similarly, all taxes on commodities are really paid by the consumer, although the government generally levies the tax from either the producer or the importer of a commodity. Hence, it is said that the incidence of these taxes falls on the consumer, and therefore the incidence of a tax may be considered to denote the real, in distinction from the nominal, payment of the tax. As another example it may be mentioned, that the incidence of the poor-rates which are levied upon the land, falls upon the land-owner; for, although such rates are paid by the farmer, yet the rent of the land would be so much greater if there were no such rates. The incidence of those taxes which we have just noticed, is very easy to trace; but with regard to the incidence of some other taxes, such as the income-tax, many questions of much perplexity and importance are suggested. Some of these questions we will now proceed to consider.

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'incidence  
of taxation.'

It may perhaps be remembered, that when expounding some of the fundamental propositions concerning capital, we occasionally referred to the income-tax, in order to show the different results which ensue, according as the tax is paid out of capital, or is saved from increased economy. In the first case, the incidence of the tax partly falls on the labouring classes, whereas, in the second case, the incidence of the tax does not fall on any one but those who pay it. That this must be so is evident, from the following considerations. It has been frequently remarked,

*The incidence of the income-tax will vary according as it is paid out of capital or saved from expenditure.*

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*If paid out of capital the incidence will be to some extent upon the labouring classes.*

that the capital which supports the industry of a country is composed of two portions, which are respectively termed, circulating and fixed capital. The circulating capital of a country is its wage-fund. If, therefore, this fund is diminished, there will be a smaller amount to distribute amongst the labouring classes, and less average wages will be received. The fixed capital of the country consists of machinery, stock, implements, and, in fact, of every kind of wealth which exists in some permanent form, and which is intended to give assistance to the future production of wealth. If, therefore, any tax should diminish the fixed capital of the country, and should thus cause less machinery to be used, or fewer useful public works to be carried out, the industry of the country would be interfered with, and the progress of the nation's wealth would be obstructed. If the income-tax were partly paid out of capital in a country which accumulates wealth rapidly, it is almost certain that the amount would be withdrawn, not from fixed, but from circulating capital. As far as the labourers are concerned, it in the first instance makes little difference whether the income-tax is paid out of circulating or fixed capital; because such fixed capital as machinery and railways can only be constructed by labour, and, therefore, if a smaller sum is spent upon such works, a smaller sum will be distributed in wages. It therefore appears, that the aggregate wages which are paid must be diminished, if the income-tax be either wholly or partly paid out of the capital of the country. It consequently follows that, if any portion of the income-tax is paid out of capital, the incidence of the tax partly falls on the labourers, although the tax may never be directly levied from them. It will be instructive to explain the process by which the burden of this tax is, as it were, shifted from one class to another.

*Explanation of the*

Let it be assumed that an income-tax of ten per cent. is imposed, and that throughout the country one half of the



tax is saved from each individual's personal expenditure, whereas the other half is provided out of capital. Upon this hypothesis, an individual, A, who has an aggregate income of 2000*l.* a year, would be rated at 200*l.* a year; his nett income is therefore 1800*l.* His personal expenditure is 1000*l.* a year, and he, therefore, annually saves 800*l.*, which he can invest as capital in his business. If there were no income-tax, his annual income would be 2000*l.*, but, according to our hypothesis, he will only spend one half of the 200*l.* a year, which would be added to his income if the income-tax were remitted; he would consequently each year save 900*l.* if there were no income-tax, and this sum he might employ as capital in his business. The amount of capital which he accumulates is therefore annually reduced by 100*l.* in consequence of the income-tax. Capital must, however, be applied, either directly or indirectly, in paying the wages of labourers, and, therefore, the income-tax diminishes by 100*l.* the amount which A annually pays to labourers; consequently this amount is as really paid by the labouring classes as if the income-tax was directly levied from them.

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*process by which the incidence of the tax is thus changed.*

It is impossible to assign the exact proportion of the income-tax which will be paid out of capital; but it is nevertheless quite certain that an income-tax would be paid out of capital to a far greater extent in some countries than in others. As an example, it may be mentioned that the industrial progress of India is retarded by a want of capital; her accumulation of capital is comparatively so small, that an income-tax could not be imposed in that country without diminishing the national capital, and in this way most seriously affecting the national wealth. In England, however, the income-tax produces none of these serious consequences; no branch of our industry which presents a fair chance of profit is ever retarded for want of capital; and, in addition to all the capital which we invest in our own commerce and trade,

*The share of the tax paid out of capital varies in different countries.*

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CH. II.

we always seem to possess an almost unlimited supply of capital if the terms which are offered for the use of it are sufficiently remunerative. It may, therefore, with considerable certainty be concluded, that the income-tax does not seriously diminish the amount of wealth which is produced in this country; for although some portion of the tax is paid out of capital, yet this amount is probably withdrawn, not from fixed capital, but from circulating capital, or, in other words, from the wage-fund. We say that it is not fixed capital which is affected, because that part of fixed capital which consists of machinery, implements, and stock, is never sold for the purpose of paying the tax, nor can any one suppose that less machinery is employed in industry, or fewer useful permanent improvements carried out in consequence of the income-tax. Our circulating capital may no doubt, to some extent, be diminished; and if this be so, a portion of the tax is virtually contributed by the labourers. In England, however, as well as in most other countries, the average amount of the income-tax which is respectively paid out of capital or saved from personal expenditure, varies greatly in the different sections of the community. In our own country each individual's expenditure is regulated far more by custom and habit, than by the amount of the annual income which he may have at his disposal. Those who have incomes of 150*l.* or 200*l.* a year are usually obliged to deprive themselves of many things which they consider almost indispensable. Such persons, therefore, if released from the income-tax, would probably spend the whole additional income which the remission of the tax would give them. The wealthy merchant, however, who is worth his 20,000*l.* a year, would most likely not increase his personal expenditure in the slightest degree, although the repeal of the income-tax might give him an additional 1000*l.* a year to spend. The additional 1000*l.* which he would thus annually

*It also varies greatly in different sections in the same country.*

accumulate would not induce him to extend his own business; he would probably invest the 1000*l.* in some security. It therefore appears that the additional capital which will be saved, if the income-tax is repealed, would be principally thrown into the money-market for investment; the amount saved would not be employed as capital by each individual tax-payer, because in a country where so much commerce is transacted by credit, the individual tax-payer would, before the income-tax had been remitted, have had no difficulty in obtaining extra capital to embark in his business.

As far, therefore, as the capital of the country is concerned, the effects of the income-tax are not in this country so important as they are generally supposed to be; because, let it be assumed (and it is rather an excessive estimate), that 6,000,000*l.* out of the 10,000,000*l.* which the income-tax annually yields would be saved as capital, if the tax were repealed. Now 6,000,000*l.* thrown into the money-market for investment, cannot produce any momentous results upon the industry of a country whose wealth is so great that, in the course of the present year\*, 8,000,000*l.* was in a few weeks raised for the foreign loans without apparently exerting any influence upon our trade, and certainly without producing any influence which could be said to denote the least financial derangement. The remaining 4,000,000*l.*, which, according to our estimate, is saved from personal expenditure, expresses the real amount of the temporary comfort and enjoyment of which the tax deprives the community. We have already said that to this last amount different sections of the community contribute in very unequal degrees; the wealthy man who is accumulating capital rapidly, does not spend less in consequence of the tax, his personal comfort is not in the slightest degree interfered with, and the only result of the tax to him is that he possesses a few thousand

*In this country the effects of the income-tax are probably not so important as has generally been assumed.*

\* 1863.

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CH. II.

*Example in the difficulty of comparing a barrister's with a solicitor's income.*

income is very much greater than that of the latter. Numerous other difficulties may be readily suggested; the income of the barrister is wholly lost to his family at his death, but the income which a solicitor obtains from his business may be partly enjoyed by his family after his decease, since the good-will of his practice may be either sold, or some person may be taken into the business as a partner, who will pay the family a certain annual sum. The capitalised value of a solicitor's professional income must be therefore greater than the capitalised value of a barrister's income of the same amount. Hence, it would appear that incomes derived from one branch of the law, ought to be taxed at a higher rate than incomes derived from other branches of the profession. The settlement of such intricate questions as these would give to the income-tax some of the worst qualities that belong to a tax; for it would be uncertain in its amount, and it would be so difficult to adjust in the various special cases which may arise, that a whole army of income-tax collectors and commissioners would have to be employed; consequently the expense and inconvenience of collecting the tax would be enormous. These considerations strengthen our conviction, that the income-tax ought to be levied at a uniform rate, and we entertain this opinion with all the more confidence, because the arithmetical arguments that can be adduced certainly do not oppose, but rather favour, the present method of levying the tax. We, however, are quite aware, that the principle of a uniform income-tax is opposed, for reasons which are quite independent of any arithmetical calculations. These reasons which we now proceed to consider are, in fact, based upon that first great maxim of Adam Smith, which is popularly thought to define equality of taxation.

*Arguments in favour of adjustment*

The persons who oppose a uniform income-tax maintain that, whether a temporary and uncertain income ought to be taxed at the same rate as a permanent and certain

income, is a question which must be settled independently of arithmetical considerations. For instance, it is frequently affirmed, that an income derived from a trade or profession ought to be taxed at a much lower rate than an income obtained from some such permanent and certain source as the funds, or landed property. When it is asked why this distinction should be made, it is considered quite sufficient to reply, that the tradesman or professional man who obtains an income of 1000*l.* a year cannot so well afford to pay the income-tax as the individual who receives an income of the same amount from the funds, or from landed property. Now this is undoubtedly true, since the income of the tradesman or professional man is uncertain, and may be altogether lost in the event of his death; whereas the possessor of a permanent income can at his death leave it intact, to be distributed amongst his family. It is, therefore, indisputable, that the income-tax ought not to be levied at a uniform rate, if the principle is admitted that each single tax should be so adjusted that every individual should contribute to it in proportion to his means, or, in other words, in proportion to his ability to pay the tax.

It has been stated in the preceding chapter, that this principle is in the abstract perfectly true, and it would no doubt secure equality of taxation, if it could be practically applied to adjust all the taxes that are imposed. But we have already shown the impossibility of this, by alluding to various indirect taxes. No method of adjustment will cause individuals to contribute to taxes on commodities in proportion to their means; the amount which is levied from each individual, by these taxes, depends upon the quantity of a commodity which he may consume. Hence we have concluded that equality of taxation is not necessarily promoted by adjusting some particular tax in such a way that each individual would contribute to it in exact proportion to his means. For instance, if the

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*independent of the above arithmetical considerations.*

*The principle of equality, though true in the abstract, is impracticable in execution and unfair if applied to one tax alone.*

BOOK IV.  
CH. II.

*Mischievous  
nature of  
those which  
are un-  
favourable  
to the ac-  
cumulation  
of capital.*

rich, that he is hardly affected by the tax. This principle, however, if carried into practical effect, might lead to some very mischievous results; it would, as it were, place a penalty upon the accumulation of wealth. All such schemes which are aimed against large capitals probably obtain popular support, because they seem to favour the ignorant prejudice which is so frequently expressed against what is termed the tyranny of capital. There was a time when the labourers of this country believed that the owner of a large capital possessed a peculiar power to oppress them. Superior education and the rapid extension of co-operative institutions are already beginning to make the labourers understand the true functions of capital. During the distress which has been produced in Lancashire by the cotton famine, numerous instances have occurred which prove that the working classes now know that capital forms the fund from which their wages are paid, and that, therefore, any scheme must directly injure them if it retards the accumulation of capital. It should, moreover, be borne in mind, that the strongest theoretical argument which can be urged against the income-tax, is based upon the fact that it is imposed upon savings. The man who has 10,000*l.* a year, and spends the whole of his income, only pays the tax once; but the man who has an equal income, and only spends a portion of it, pays in the first instance the same amount to the tax, and is also each year compelled to pay the tax upon the income which is derived from the investment of the amount which he has saved from his annual income. The income-tax, therefore, to a certain degree, encourages spending, and discourages saving. This, as we have already said, is a matter of little consequence in a country like our own, where the desire to accumulate wealth is so strong, and consequently the amount of capital which is annually saved is so vast. But in India the accumulation of capital is so vitally important, that the income-tax, because it

*This is  
especially  
true in a  
poor  
country.*

discourages the accumulation of capital, is one of the worst taxes that can be imposed in that country. It therefore follows that, as far as even England is concerned, the most serious objection which can be urged against the tax is greatly strengthened if it should be so graduated that the tax is increased in proportion to the amount which an individual saves.

We will, in conclusion, allude to a serious objection connected with the income-tax which cannot be obviated by any method of adjustment. It is evident that the tax can be accurately levied upon all incomes the amount of which is, as it were, publicly known. Thus the Bank of England, when paying the dividends arising from the funds, deducts the income-tax, and hands the amount over to the government. It is, therefore, impossible for a fundholder to evade the tax. The tax is also similarly deducted from all official salaries, and also from the pay of officers in the army and navy. The amount of the tax which is levied from various other kinds of incomes is also regulated by definite rules. For instance, a farmer's income is estimated to be equivalent to one half his rent. If, therefore, his rent is 800*l.* a year, and if the income-tax is five per cent., the income-tax levied upon him will be 20*l.* His income may no doubt be either more or less than 400*l.* a year, but when the rule has once been made, he has no power to evade any portion of the tax, because the amount at which he is assessed is precisely determined. But with regard to various other classes of traders it is impossible to ascertain the amount of their incomes by any definite rules. The income of a manufacturer or retail trader can only be approximately estimated; and an opportunity is thus afforded to evade a considerable portion of the tax. Morality is unfortunately too often based on conventionality; and many who pass for honest men do not hesitate to cheat the government, although in the private transactions of life they would shrink from doing

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CH. II.

*Objection to the income-tax from the difficulty of estimating some of the incomes upon which it is raised.*

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CH. II.

*The dishonesty which is occasionally thus produced.*

anything which could in the least degree be considered as dishonourable. Numerous cases have occurred which strikingly exemplify the dishonesty that is practised by many in their dealings with the government.

The following well-known instance was quoted by Mr. Gladstone in one of his Budget speeches. A particular street in London was, during a certain period, closed for traffic in consequence of improvements which were in the course of being carried out. The business of the various tradesmen who lived in the street was prejudicially affected, and they consequently claimed compensation. The amount of compensation which each individual received was apportioned to the nett income which he derived from his business. All the tradesmen, consequently, made a return of their incomes. Some one thinking that these returns were excessive, had the curiosity to compare them with the amount of the incomes which these tradesmen returned for the assessment of the income-tax. The extraordinary and, it may be added, the melancholy fact was revealed, that the tradesmen living in a respectable London street could practise so much deception, that for the purpose of assessing the income-tax they returned their incomes at a certain amount, and immediately declared that their incomes were double this amount when pressing their claims for compensation. It is, therefore, evident that, as long as such duplicity is prevalent, many will evade a part of the income-tax which they are bound to pay to the government. Hence the tax operates with a certain degree of unfairness, because certain classes of the community have a chance of evading the tax, whereas others have not.

*This immorality can scarcely be considered as a weighty argument against the tax.*

The inequality which is caused by this power of evasion is not by many so much objected to as the general immorality which they conceive to be produced by such taxation. It is, for instance, maintained that the income-tax places so great a premium upon deception, that many who



would otherwise be honourable, are tempted to deceive the government. We hardly think, however, that a statesman ought to pay much attention to such an argument. The morality of those individuals who are so easily led away from the paths of virtue and honour is scarcely worth the fostering care of a government. Every precaution should of course be taken to detect and punish those who make false returns, because the burden which they escape is thrown upon the rest of the community. Let us, however, hope that the general honesty of the nation is progressing, and that therefore the force of the objection against the income-tax which we have just noticed is each year diminishing.

## CHAPTER III.

## TAXES ON COMMODITIES AND OTHER INDIRECT TAXES.

BOOK IV.  
CH. III.

*Distinction  
between  
direct and  
indirect  
taxation.*

THE last chapter was devoted to the discussion of the income-tax, and although this tax manifestly differs in many essential respects from other direct taxes, yet in describing the income-tax we have pointed out many qualities which are common to all direct taxes. We shall, therefore, be enabled, after having described indirect taxation in the present chapter, to compare or rather to contrast the two systems of taxation.

*Taxes on  
commodi-  
ties are ne-  
cessarily  
indirect.*

Direct and indirect taxation are words of such frequent use that they probably need no definition. It may, perhaps, however, be well to state, that a direct tax is really paid by the person from whom it is levied, whereas an indirect tax, though nominally paid by one person, is really paid by another individual. This distinction may be easily illustrated by an example. The possessor of an income of 1000*l.*, if he has to pay 100*l.* towards an income-tax, cannot shift the burden of the tax on any one else. The tax makes him so much poorer by the whole amount which it takes from him; the same remark, moreover, applies to other direct taxes, such, for instance, as a duty on a legacy, and a tax on dogs, horses, carriages, servants, &c. But an entirely different result follows with regard to an indirect tax, such as the malt duty; for in such a case, although the malt duty is in the first instance paid by the malster, yet the tax really comes out of the pockets of the consumers of malt, because the price which

they are compelled to pay for malt is increased by an amount which must at least be equivalent to the tax imposed. It is, therefore, manifest that taxes on commodities are indirect; because if commodities are taxed they are increased in price, and consequently the consumers of the commodities really pay the taxes, although they may in the first instance be levied upon the importers or producers of commodities.

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CH. III.

It must not, however, be supposed that there are no indirect taxes except those which are imposed upon commodities; for instance, a tax which is in its essential character direct, may become indirect by private and commercial arrangements, and by many other causes. Thus, in England, it is customary for the tenant-farmer to pay poor-rates; it is, however, evident that all such charges as these are really paid by the landowner, because if a farmer has to contribute 100*l.* a year in poor rates, he is able to pay so much less a year for the use of his land, and consequently, if no poor-rates were imposed, the landlord might increase the rent of his farm by the whole amount which his tenant previously contributed to these rates. The same remark applies to various other rates, and also to tithes; it therefore appears that there is not necessarily an essential distinction between a direct and an indirect tax, for we have seen that a direct may be converted into an indirect tax, simply by a private commercial arrangement, since there is no reason whatever why the poor-rates should not in all cases be paid by the landlord, and not by his tenant. If this were done, the poor-rates would become a direct tax. It is, therefore, possible that the words direct and indirect when applied to a tax may denote only a nominal distinction; the tax, however, which is imposed on commodities cannot be made a direct one, since it would be impracticable to levy the tax upon each person who may have to purchase any particular article; consequently, the real points of distinction

*Other taxes  
may become  
indirect,*

*and in-  
direct taxes  
may be  
made  
direct.*

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CH. III.

between the two different systems of taxation will be best elucidated by comparing the effects of a direct tax with those which result from a tax imposed upon a commodity.

*The taxes considered here are those imposed for revenue, not for protection.*

At the commencement of our enquiry it may be important to remark, that various commodities have been taxed in our own country, and are still taxed in many other countries, in order to protect native industry, and not solely for the purpose of obtaining revenue for the State. We intend hereafter to discuss the theory of protective duties, and we shall therefore, for the present, consider those taxes on commodities which are imposed for the sole purpose of obtaining revenue for the State. The last remnant of protection has been banished from our fiscal system, and every tax is now carefully adjusted with the view of placing the home and foreign producer in a position of equality.

*Taxes on commodities are at most invariably incapable of satisfying the condition of equality of incidence.*

We have already stated that a tax upon any commodity must almost invariably be opposed to Adam Smith's first canon of taxation, which affirms 'that each person ought to contribute to the revenue in proportion to his ability to pay.' Taxes on commodities cannot be framed in obedience to this rule, for various reasons. In the first place, it may be remarked that taxes on commodities can seldom be made *ad valorem*, and it is quite evident that from this circumstance great inequality of taxation must inevitably result. As an example it may be mentioned that every pound of tea which is imported into this country has at the present time to pay a tax of 1s. per pound. The inferior qualities of tea which the poor principally consume, would if admitted duty free be retailed at a price certainly not exceeding 1s. per pound. It, therefore, follows that the tea which is used by those who are the poorest, and who are the least able to contribute to the revenues of the State, is taxed at the rate of 100 per cent., whereas the superior qualities of tea which are purchased by the wealthy at five or six shillings per

pound, only pay a tax of twenty or thirty per cent. This inequality of taxation, which in a greater or less degree is common to those taxes which are imposed upon commodities, rarely admits of any practical remedy. For instance, it has been frequently proposed to make the duty on tea vary with the quality of the tea; but those who are most competent to form a practical judgment affirm that such a method of adjustment would be frustrated by the extreme difficulty and uncertainty of testing the quality of tea at the custom house. As we have before said, the inequality to which we have just alluded, and from which taxes when levied upon commodities cannot as a general rule be freed, must as far as possible be compensated by making other taxes, such as the income-tax, fall most lightly on those who are the most injured by the particular inequality which we have just described. These considerations induce us again to remark, that equality of taxation can be most effectually secured, not by framing any one tax in obedience to Adam Smith's first rule, but by applying a general process of compensation to the whole revenue.

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CH. III.

*This may  
be partly  
compensated by  
other taxes.*

Let us next enquire to what extent taxes on commodities can be made consistent with Adam Smith's second rule, which states, 'that the amount which each individual contributes to a tax ought to be certain and not arbitrary.' In one sense almost all taxes on commodities strictly obey this rule or principle of taxation. The producer or importer of a taxed commodity can always know the exact amount which the particular tax will levy upon him. If the duty on tea is 1s. per pound, the merchant who imports a cargo of tea can calculate with strict accuracy the amount of duty which the tea must pay; the same remark applies to the producer of a taxed commodity such as malt. The only case in which uncertainty can arise is when a tax is made *ad valorem*, because then the test which the government may apply to ascertain the value of any commodity may be uncertain and imperfect

*Taxes generally satisfy the principle of being certain.*

*There are however exceptions in*

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*ad valorem*  
*duties.*

in its operation. There has been an instance of this in the recent financial measures of Mr. Gladstone. Within a few years the spirit duties have been raised, and when Mr. Gladstone proposed in 1860 a great reduction in the duty on wine, he felt that the difference between the duty on wine and spirits was so great that the revenue might be defrauded by mixing spirits with wine, and importing the whole as wine. With a view of preventing such a fraud, he proposed to tax wine in proportion to the amount of alcohol it contained. The plan which was adopted to ascertain the quantity of this alcohol was denounced by those engaged in the wine trade to be most vexatious; and they chiefly based their complaint upon the uncertainty of the tax when it was so imposed, for they affirmed that they never could tell beforehand the amount of duty which any particular wine would have to pay. It must, however, be admitted that such uncertainty with regard to taxes on commodities is exceptional, and rarely if ever exists, unless an attempt is made to adjust the tax according to some *ad valorem* standard.

*They are generally paid at the time most convenient to the consumer,*

The third rule of taxation laid down by Adam Smith affirms that 'every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it;' we will therefore next enquire whether taxes on commodities are generally consistent with his rule. In making this enquiry it will be necessary to distinguish the real from the nominal payer of the tax; for we have already stated that the burden of these taxes really falls upon the consumers of a commodity, although the tax is generally levied from the producer or importer. Taxes on commodities are no doubt paid, as far as the consumer is concerned, at a time and in a manner which is most convenient; for the tax is in fact levied upon the consumer at the time when he pays for the commodity which he may purchase. But the producer or importer of a commodity may be called upon, in

consequence of defective financial arrangements, to pay the tax at a time and in a manner most inconvenient. Sometimes the inconvenience just alluded to is entirely due to injudicious financial arrangements; sometimes, however, it is inherent in the nature of the tax; and when this is the case, the tax ought not to be imposed, except as a financial necessity. For instance, it seems that the duty on hops could not be levied, except in a manner which was most inconvenient to the growers of hops, and thus a strong argument was provided for the repeal of these duties. Hops were taxed at so much per pound, whatever was the quality or quantity of the crop; the tax was assessed immediately the crop was gathered in, and the hop grower was compelled to pay the duty at a certain definite time, whether he had sold his hops or not. The hop crop is so uncertain, that the grower could never accurately calculate how much he should be called upon to pay. If he was not a man of large capital, he was compelled to sell his hops, whether he wished to do so or not, in order to pay the duty. A too abundant crop was also a great disadvantage to the grower; the demand for hops does not vary greatly from year to year, and, consequently, there must be great fluctuations in the price of hops, since the crop of one year is often three or four times as great as the crop of the next year. The amount of duty which a grower had to pay was proportionate to the abundance of the yield, and it therefore not unfrequently happened, that a large crop was most disastrous to the grower, because the maximum amount of duty had to be paid when the price of hops was extremely low. These, and other inconveniences, seemed to admit of no adequate remedy, and, therefore, the hop duties have been most properly repealed.

It generally happens, that many of the inconveniences which may be connected with the time and manner of levying a tax on a commodity can be greatly diminished

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*but frequently at a time inconvenient to the producer or importer.*

*This inconvenience may be*

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*avoided by  
judicious  
arrange-  
ments, such  
as bonding  
houses.*

by proper financial arrangements. As an example, we may refer to the bonding houses, which offer great facilities and advantages to those who import taxed commodities. A merchant may not wish immediately to sell the goods he imports, he is therefore permitted to place them in bond, and as long as they remain in bond, he is not compelled to pay any duty upon them. This, no doubt, is a just arrangement, because the government intends that the consumer of the commodity should really pay the tax which may be imposed upon it, and, therefore, as short an interval as possible ought to elapse between the payment of the duty and the sale of a commodity; the merchant simply advances the tax, and if repayment is deferred, he will be compelled to employ a greater capital in his business, and the consumer will be consequently charged a higher price for the commodity.

*They generally take more out of the pockets of the people than they bring into the state treasury.*

The last rule of taxation propounded by Adam Smith affirms, 'that every tax ought to be so contrived, as both to take out, and to keep out of the pockets of the people, as little as possible over and above what it brings into the public treasury of the state.' It has been previously stated, that any tax which is expensive to levy, will be inconsistent with this rule. The same remark holds true if a tax diverts labour from a productive to a more unproductive employment; if it encourages smuggling, and lastly, if it necessitates restrictive regulations with regard to the mode in which any trade or industry may be conducted. Taxes on commodities cannot, as a general rule, be completely free from all the faults which have been just described, but the faults may be much mitigated by proper financial arrangements. A tax, whether levied on a home-produced commodity, or upon one which is imported, must be expensive to collect. A great number of excise and custom officers must be employed to assess and collect the tax; and an enormous outlay is often required to prevent smuggling and other kinds of fraud. Smuggling



is much more easily prevented in an island like our own, than in a country where a great extent of land frontier has to be protected. The difficulty of guarding 2000 or 3000 miles of frontier would render the imposition of custom duties most undesirable in such a country as America. The expense of collecting a certain amount of revenue by taxes on commodities is very much diminished, if the taxes are confined to a few articles of general consumption, for when a tax is imposed upon some article of limited use, the cost of collecting the tax is always enormous in proportion to the amount which the tax yields to the state. About thirty years since, our own tariff contained a list of 300 or 400 articles, which were subject to either excise or custom duties. The great majority of these duties have been most properly repealed, and at the present time, tobacco, tea, coffee, sugar, and a few other articles, are alone subject to custom duties, and malt and spirits are the articles which chiefly contribute to that portion of our revenue which is raised by excise duties. Again, with regard to smuggling, there can be no doubt that it is much discouraged by the removal of extremely high duties on articles which contain a great value in small bulk, and which can therefore be readily concealed. A tax on a commodity may, however, in various ways which are not so frequently noticed, take out of the pockets of the tax payer an amount which greatly exceeds that which the tax yields to the state.

In the first place it may be stated, that when a commodity is taxed, the price which the consumer has to pay for it is increased by an amount which often exceeds the amount of the tax. Thus let us take the case of a tax being levied under very favourable circumstances, and suppose, as an example, that a retail grocer buys so many chests of tea direct from bond. The amount of tea which he buys we may assume to be 3000*l.*; the value of this tea would not probably exceed 2000*l.*, if tea was admitted

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CH. III.

*The expenses of collection may be reduced by a judicious selection of taxes.*

*But the price may be unduly enhanced for the consumer.*

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duty free, because, considering the average quality of the tea sold, the duty on tea may be estimated at fifty per cent. upon its value. The grocer, when he sells this tea by retail, will of course expect to realise the ordinary trade profit. This profit we will suppose to be twenty per cent.: the grocer will therefore obtain 3600*l.* for the tea, which cost him 3000*l.*, whereas if it were not for the duty, the grocer would be obliged to give only 2000*l.* for the same quantity of tea, and would be remunerated with the same per centage of profit, if he sold this tea to his customers at such a price as would realise for him 2400*l.* It therefore appears, that those who purchase this tea pay 1200*l.* additional for it, although only 1000*l.* of this amount is received by the government as duty. Hence, upon this hypothesis, the duty takes out of the pockets of the tax payers twenty per cent. more than it gives to the revenue of the State. This is the most serious objection which can be urged against taxes on commodities, and it is one which has not been adequately considered. It must, moreover, be remembered, that the imaginary case we have just put, does not as a general rule adequately represent the amount which a tax on a commodity keeps out of the pockets of the people, beyond what it yields to the State. For instance, it has been assumed that the tea is purchased by the retail grocer direct from bond, but no doubt it much more frequently happens that the tea, after it is taken from bond, passes through the hands of four or five dealers, before it is ultimately sold to the consumer. If, therefore, it is supposed that tea pays a duty of fifty per cent. upon its value, each of these dealers will require fifty per cent. more capital to conduct his trade in tea. The ordinary profit of trade must be realised upon the additional capital which is thus required to be employed, and, consequently, when a commodity is taxed, the consumer is generally compelled to pay for it a price which is increased to an extent far exceeding the amount of the duty.

*This is the most serious objection against taxes on commodities.*

A more serious defect cannot belong to any tax than that it should take from the tax-payer an amount which greatly exceeds that which it yields to the revenue. This defect, to a greater or a less degree, accompanies all indirect taxation; for all indirect taxes are in the first instance paid by the producers or importers of a commodity, who are remunerated by the increased price which the consumer is compelled to pay. In every instance, some time must elapse between the payment of the duty and the sale of a commodity, and, consequently, the trader who first advances the tax must wait for a certain time before he is repaid by the consumer. But the trader is compelled to employ a portion of his capital to make this advance, and upon this capital he will expect to obtain the ordinary trade profit; this profit the consumer must return to him, in addition to the amount of the tax. This most serious defect, though inherent in all taxes on commodities, may be very much diminished by proper precautions. Thus it is evident, that as short an interval as possible ought to elapse between the levying of a tax on a commodity, and the time when it is ready for consumption. On this account it is much more desirable to tax manufactured goods than the raw material. In order to illustrate this point still further, let us briefly trace the different results which would be produced by a tax on raw cotton, and by a tax on cotton goods.

We will start with the supposition, that the two different taxes yield the same amount to the revenue. Let us in the first instance suppose that raw cotton is taxed, and that a manufacturer who purchases 10,000*l.* of raw cotton has to pay 1000*l.* duty. The tax, therefore, compels him to employ a capital of 11,000*l.* instead of 10,000*l.* Upon this additional capital he will expect to realise the ordinary trade profit, which we may assume to be ten per cent. At the end of a twelvemonth we may suppose that he sells the goods which have been manufactured from this raw cotton

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*It affects to some extent all taxes on commodities.*

*Illustration of the fault. Results of taxing raw cotton*

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to warehousemen; since, however, the duty imposed on the raw cotton has necessitated the employment of 1000*l.* additional capital, the price of these manufactured goods must in consequence of the tax be increased by 1100*l.*, and not by 1000*l.*, which is the amount really received by the government; for if this were not so, the manufacturer would not be adequately compensated for the capital employed in his business.

*or manu-  
factured  
cotton  
goods.*

Let us now make a second supposition, and consider the tax to be paid upon the manufactured goods. Then the manufacturer would not be called upon to pay the tax, until his goods were actually purchased by the retail dealer, or warehouseman, and, consequently, the tax would not compel him to employ a larger capital in his business.

*The last tax  
would take  
much less  
from the  
consumer.*

In this case, therefore, the price of the goods, when sold by the manufacturer, will not be increased by an amount exceeding the amount of the tax. It therefore appears, that a tax on manufactured goods, if it can be easily levied, is far preferable to a tax on raw material. It however not unfrequently happens, that a manufactured commodity cannot be taxed without subjecting the particular trade to the most injurious interference; for in order to assess an excise duty, and in order to prevent fraud, various kinds of restrictions with regard to the particular mode in which trade is carried on must be enforced, and great annoyance is often caused by vexatious visits of the excise officers.

*Taxes on  
manufac-  
tures how-  
ever cause  
annoyance  
in other  
ways.*

Thus few taxes on a manufactured commodity can be assessed and collected with greater facility than the duty on malt, yet maltsters are compelled to carry on their trade according to certain strict rules. Notice, for instance, must be given when the barley is to be wetted; the barley, when wetted, must be thrown out in a particular manner on the floors to be dried, and the exciseman can visit the malt-house whenever he pleases. Such interference would be a still more serious evil, if some commodity should be taxed which involved complicated

processes of manufacture, each of which has to be conducted according to certain rules, and to be watched by government officers, in order not only to prevent fraud, but to assess the tax. Such interference would oppose an insurmountable obstacle to the development of a branch of industry, for all that enterprise would be checked which stimulates the introduction of machinery, and other industrial improvements.

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The remarks which we have hitherto made in this chapter have been restricted to the import duties and to the excise duties that are imposed upon the commodities which are consumed in the country; the government, in fact, intends that the burden of these taxes should fall on the consumers. It is, however, manifest that various commodities which we export may be also taxed; we have, however, been induced to consider separately the operation of export duties, because these duties are imposed with the view of making foreign countries contribute to our own revenue. It would not be appropriate, in a treatise on political economy, to enquire whether the relations which ought to prevail between different countries would justify us in the attempt to make foreigners contribute to the expense of our own government. In fact, we do not know how such a question can be decided, because a complete code of international morals has not as yet been propounded, much less recognised. Political economy can however perform a useful service by proving that an export duty is seldom entirely paid by the foreigner; contrary to popular opinion, it almost invariably happens that, in attempting to tax the foreigner, we tax ourselves to as great, or even a greater extent.

*Question of taxing exports.*

We cannot discuss the operation of export duties without recalling to our reader's mind many of the principles which were established with regard to international trade. We proved whilst investigating that subject that there is a constant tendency in operation to make the exports of a

*Effects of an export duty such as the duty on coals proposed by*

## CHAPTER III.

## TAXES ON COMMODITIES AND OTHER INDIRECT TAXES.

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*Distinction  
between  
direct and  
indirect  
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THE last chapter was devoted to the discussion of the income-tax, and although this tax manifestly differs in many essential respects from other direct taxes, yet in describing the income-tax we have pointed out many qualities which are common to all direct taxes. We shall, therefore, be enabled, after having described indirect taxation in the present chapter, to compare or rather to contrast the two systems of taxation.

Direct and indirect taxation are words of such frequent use that they probably need no definition. It may, perhaps, however, be well to state, that a direct tax is really paid by the person from whom it is levied, whereas an indirect tax, though nominally paid by one person, is really paid by another individual. This distinction may be easily illustrated by an example. The possessor of an income of 1000*l.*, if he has to pay 100*l.* towards an income-tax, cannot shift the burden of the tax on any one else. The tax makes him so much poorer by the whole amount which it takes from him; the same remark, moreover, applies to other direct taxes, such, for instance, as a duty on a legacy, and a tax on dogs, horses, carriages, servants, &c. But an entirely different result follows with regard to an indirect tax, such as the malt duty; for in such a case, although the malt duty is in the first instance paid by the malster, yet the tax really comes out of the pockets of the consumers of malt, because the price which

*Taxes on  
commodi-  
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cessarily  
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they are compelled to pay for malt is increased by an amount which must at least be equivalent to the tax imposed. It is, therefore, manifest that taxes on commodities are indirect; because if commodities are taxed they are increased in price, and consequently the consumers of the commodities really pay the taxes, although they may in the first instance be levied upon the importers or producers of commodities.

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It must not, however, be supposed that there are no indirect taxes except those which are imposed upon commodities; for instance, a tax which is in its essential character direct, may become indirect by private and commercial arrangements, and by many other causes. Thus, in England, it is customary for the tenant-farmer to pay poor-rates; it is, however, evident that all such charges as these are really paid by the landowner, because if a farmer has to contribute 100*l.* a year in poor rates, he is able to pay so much less a year for the use of his land, and consequently, if no poor-rates were imposed, the landlord might increase the rent of his farm by the whole amount which his tenant previously contributed to these rates. The same remark applies to various other rates, and also to tithes; it therefore appears that there is not necessarily an essential distinction between a direct and an indirect tax, for we have seen that a direct may be converted into an indirect tax, simply by a private commercial arrangement, since there is no reason whatever why the poor-rates should not in all cases be paid by the landlord, and not by his tenant. If this were done, the poor-rates would become a direct tax. It is, therefore, possible that the words direct and indirect when applied to a tax may denote only a nominal distinction; the tax, however, which is imposed on commodities cannot be made a direct one, since it would be impracticable to levy the tax upon each person who may have to purchase any particular article; consequently, the real points of distinction

*Other taxes  
may become  
indirect,*

*and in-  
direct taxes  
may be  
made  
direct.*

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The taxes considered here are those imposed for revenue, not for protection.

between the two different systems of taxation will be best elucidated by comparing the effects of a direct tax with those which result from a tax imposed upon a commodity.

At the commencement of our enquiry it may be important to remark, that various commodities have been taxed in our own country, and are still taxed in many other countries, in order to protect native industry, and not solely for the purpose of obtaining revenue for the State. We intend hereafter to discuss the theory of protective duties, and we shall therefore, for the present, consider those taxes on commodities which are imposed for the sole purpose of obtaining revenue for the State. The last remnant of protection has been banished from our fiscal system, and every tax is now carefully adjusted with the view of placing the home and foreign producer in a position of equality.

Taxes on commodities are almost invariably incapable of satisfying the condition of equality of incidence.

We have already stated that a tax upon any commodity must almost invariably be opposed to Adam Smith's first canon of taxation, which affirms 'that each person ought to contribute to the revenue in proportion to his ability to pay.' Taxes on commodities cannot be framed in obedience to this rule, for various reasons. In the first place, it may be remarked that taxes on commodities can seldom be made *ad valorem*, and it is quite evident that from this circumstance great inequality of taxation must inevitably result. As an example it may be mentioned that every pound of tea which is imported into this country has at the present time to pay a tax of 1s. per pound. The inferior qualities of tea which the poor principally consume, would if admitted duty free be retailed at a price certainly not exceeding 1s. per pound. It, therefore, follows that the tea which is used by those who are the poorest, and who are the least able to contribute to the revenues of the State, is taxed at the rate of 100 per cent., whereas the superior qualities of tea which are purchased by the wealthy at five or six shillings per



pound, only pay a tax of twenty or thirty per cent. This inequality of taxation, which in a greater or less degree is common to those taxes which are imposed upon commodities, rarely admits of any practical remedy. For instance, it has been frequently proposed to make the duty on tea vary with the quality of the tea; but those who are most competent to form a practical judgment affirm that such a method of adjustment would be frustrated by the extreme difficulty and uncertainty of testing the quality of tea at the custom house. As we have before said, the inequality to which we have just alluded, and from which taxes when levied upon commodities cannot as a general rule be freed, must as far as possible be compensated by making other taxes, such as the income-tax, fall most lightly on those who are the most injured by the particular inequality which we have just described. These considerations induce us again to remark, that equality of taxation can be most effectually secured, not by framing any one tax in obedience to Adam Smith's first rule, but by applying a general process of compensation to the whole revenue.

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*This may  
be partly  
compensated by  
other taxes.*

Let us next enquire to what extent taxes on commodities can be made consistent with Adam Smith's second rule, which states, 'that the amount which each individual contributes to a tax ought to be certain and not arbitrary.' In one sense almost all taxes on commodities strictly obey this rule or principle of taxation. The producer or importer of a taxed commodity can always know the exact amount which the particular tax will levy upon him. If the duty on tea is 1*s.* per pound, the merchant who imports a cargo of tea can calculate with strict accuracy the amount of duty which the tea must pay; the same remark applies to the producer of a taxed commodity such as malt. The only case in which uncertainty can arise is when a tax is made *ad valorem*, because then the test which the government may apply to ascertain the value of any commodity may be uncertain and imperfect

*Taxes generally satisfy the principle of being certain.*

*There are however exceptions in the case of*

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*and might, as an exceptional case, be financially politic.*

would have been politic, considered merely as a financial measure. Although, in the special case which has been just investigated, we have spoken somewhat favourably of an export duty, yet it must be borne in mind that we distinctly based our remarks on the fact that the United States possessed, with regard to the growth of cotton, a natural monopoly. This, therefore, is quite an exceptional case: an export duty would almost invariably, as we have shown in a previous example, jeopardise the export trade of a country, and thus diminish the national wealth. If such a result occurs, it is hardly necessary to repeat that an export duty is impolitic, and must prove disastrous.

*Import duties imposed for the sake of protection.*

We have hitherto, in this chapter, considered that import duties are imposed for the sole purpose of obtaining revenue for the State. But until a very recent period it was almost universally believed that another most important end was attained by import duties. Twenty years since the theory of protection was as generally accepted in this country as it is now discarded. In America, in France, and in most continental countries, the great majority of politicians are even at the present day ardent protectionists. It is, therefore, still extremely important, as a practical question, to investigate the effects of import duties when they are imposed for the double purpose of obtaining revenue, and of protecting native industry. It is quite evident that an import duty can be easily arranged so as to obtain the double object. We have already, for instance, alluded to the closeness of competition in the silk trade, between France and England. If, therefore, a small import duty, say of five per cent., should be placed upon French silks, and if at the same time English silks should be subject to no excise duty, it is manifest that French silks would probably be almost entirely excluded from the English market. A similar end might be attained with regard to all other imported commodities.

It is consequently possible to limit, or altogether stop the importation of a commodity, by subjecting it to a sufficiently high import duty.

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The principles which have been established with regard to international trade clearly prove the loss which the nation suffers if protective duties either prevent or check the importation of commodities. When trade is carried on between two countries, the wealth of each is increased, because each country is enabled to apply its labour and capital to those branches of industry for which it possesses the greatest natural advantages. Thus reverting to our previous illustration, it has been assumed that the cost of growing corn, compared with the cost of producing iron, is much less in France than in England. We have, for instance, made a supposition, which is by no means hypothetical, that a ton of iron costs as much to produce, in France, as twenty sacks of wheat; whereas, in England, a ton of iron would only be equivalent in value to twelve sacks of wheat. We can, therefore, readily perceive the loss which France and England would both suffer if protective import duties imposed in France upon English iron should prevent the importation of English iron into France, and if protective duties imposed in England upon corn should prevent the importation of French wheat into England. Such a protective tariff would cause labour and capital to be wasted, or, in other words, would deprive them of a part of their productive powers. Twelve sacks of wheat cost England as much to produce as one ton of iron; but if the trade between England and France were unrestricted, England might divert a portion of her labour and capital from the growth of wheat to the production of iron for France; it would be manifestly greatly to the advantage of France to give England sixteen sacks of wheat for each ton of iron. Hence, unrestricted trade so much increases the wealth of a country, that a certain amount of labour and capital, which before would only

*A protective tariff always involves a waste of capital and labour.*

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obtain twelve sacks of wheat, now produces a ton of iron, in exchange for which a foreign country will willingly give sixteen sacks of wheat.

*Protectionists ignore this loss, and point out the temporary evils inflicted upon home industry by free trade.*

The argument which we have just adduced, considered in conjunction with the remarks which have been made upon international trade, may be regarded as conclusively demonstrating the injurious effect which is produced upon the nation by protective duties. Protectionists, however, ignore this loss of national wealth; they advocate the protective system, because they conceive that, without its support, some special branches of industry would be unable to compete against foreign countries. It might, for instance, be argued that it would be impossible for the English farmer to compete against the French farmer, if wheat can be grown at a much cheaper rate in France than in England; on the other hand, it would be equally impossible for the French iron-master to compete against the English iron-master, if cheap English iron is freely imported into France. It is, therefore, plausibly argued that free trade is a dangerous experiment if it should cause the agricultural interest to be ruined in England, and the iron interest to be ruined in France. It can, however, be easily shown that no class of traders can either be permanently benefited by protective duties, or permanently injured by free trade. Landowners are the only class that can derive a lasting advantage from protection. Property in land may be described as the possession of a natural monopoly. The value of this natural monopoly may be artificially raised by protection, but other considerations, which we shall proceed to mention, will almost invariably deprive even the landowners of this possible special advantage.

*A consideration of free trade in corn in*

We may consider in what manner the position of the English farmer was affected by the corn laws, in order to prove that no class of traders can be permanently benefited by protective duties. The restrictions which the corn

laws imposed upon the importation of corn no doubt increased its price in this country; it was therefore concluded that protection, because it increased the price of corn, conferred a special benefit upon the English farmers. It must, however, be borne in mind that permanent low prices are as advantageous to the English farmer as permanent high prices. In a country like our own, where there is great commercial enterprise, the competition of capital is constantly exerting a tendency to equalise profits in different trades. If the price of all agricultural produce should be doubled, the farmer's gross returns would *cæteris paribus* be doubled; his profits therefore would be enormously augmented, if he were able to appropriate to himself all these additional returns. But if the profits of the farmers, or of any other class of traders, should be greatly increased, an active competition for farms would be at once stimulated, the rent of land would consequently rise, the profits of the farmer would soon be reduced to their former amount, and thus the landowner, and not the farmer, would be ultimately benefited. Again, if the price of agricultural produce should be reduced by foreign importations, the profits of the farmer might be greatly diminished; traders, however, will cease to continue a business if they are unable to realise from it the ordinary rate of profit. Landowners will, consequently, be obliged to submit to a reduction of rent; hence, it is not the farmer, but the landowner, who would ultimately suffer. Of course, farmers may be temporarily benefited by a sudden rise in prices, or temporarily injured by a sudden fall. For instance, many farms are let on lease, and the rent of such farms cannot therefore be either immediately raised or immediately lowered. When, moreover, the profits which are realised in a particular trade are affected by a sudden change of prices, a considerable time must elapse before the trade is again restored to its normal or steady condition; during this interval the trader

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*England shows that it cannot permanently injure any class of English traders.*

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may either secure exceptionally great gains, or may have to submit to an unusually low rate of profit.

*Free trade might cause temporary injury to land-owners; but, in practice, can rarely produce that effect.*

We have proved, as a possible theoretical result, that the landowners may be injured by the abolition of protective duties. The experience which has been derived from the introduction of free trade into this country has shown that the landowner will generally receive compensation in various ways. The rent of land has, no doubt, in this country, rather increased than diminished since the passing of free trade; this fact may be readily explained, for although the price of wheat has been reduced by foreign importations, yet a more than corresponding rise has taken place in the price of other kinds of agricultural produce. Meat, dairy produce, and even barley, are much dearer now than they were previous to the repeal of protective duties. It must moreover be remembered, that the rise in the price of these articles is in a great measure due to free trade. Our commerce, released from the trammels of protection, has expanded in the most extraordinary manner. An annual augmentation in our export trade amounting to 70,000,000*l.* represents an enormous addition to the accumulated wealth, or, in other words, to the capital of the country; but if the capital of the country is augmented, the wage-fund must also be increased, and thus the additional wealth which has been created by unrestricted commercial intercourse has been distributed amongst the nation at large. The people, having in this way been made wealthier, consume a greater quantity of meat, dairy produce, and beer. Meat and dairy produce are expensive to import, and barley, after being for a length of time in the hold of a ship, does not make good malt. Hence these commodities have all greatly risen in price; farmers are consequently now able to pay higher rents than they could when they were protected by prohibitive duties, and growing prosperity for the landed interest has been substituted for the im-

pending ruin which was so often gloomily predicted by protectionist statesmen.

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Foreign competition may, no doubt, cause some particular branches of industry to be altogether relinquished, if the industry has been artificially sustained and fostered by protective duties. As an example, it may be mentioned that this country, following the example of France, might have imposed high import duties upon sugar, with the view of encouraging the home manufacture of sugar from beet-root. A home sugar interest of great importance might thus have been artificially created; if, however, the support of protection should be removed, it would be impossible for the producer of home-grown sugar to compete against the foreign importer; this particular department of native industry would therefore be immediately destroyed. Such a destruction of a branch of industry may be perhaps regarded as most disastrous, because it may be thought that labourers would be thrown out of employment, and capitalists would be deprived of an eligible investment for their capital. The labourers engaged in one particular kind of industry no doubt suffer a temporary loss if they are compelled to relinquish the labour to which they are accustomed; each branch of industry requires some special skill or knowledge, and consequently those who are compelled to engage in a new kind of labour lose the advantage of their acquired skill. Again, employers always suffer a certain amount of loss if they are obliged to relinquish the industry to which they are accustomed; they also possess a special knowledge, which they must to a great degree sacrifice, and capital cannot be transferred from one employment to another without considerable waste. In every branch of industry there is a large amount embarked in the form of fixed capital; machinery, buildings, and plant, cannot be converted to a new use without involving great expense. These temporary disadvantages may no doubt accompany the

*Particular branches of industry may suffer from free trade for a time, but its ultimate effects must be beneficial,*

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*for it cannot be a loss to a country to import commodities instead of producing them.*

removal of protective duties, but an abundant compensation is provided by the great benefits which are sure ultimately to result from free commercial intercourse. The general body of the consumers are provided with cheaper commodities, and the wealth of the country must be increased, because labour and capital are both rendered more productive. The principal argument which foreign protectionists still urge against free trade would be removed, if it is once clearly perceived that it cannot be any loss to a country to import commodities instead of producing them. If commodities are imported, commodities of an equivalent value must be exported to pay for those which are imported. If, therefore, the introduction of free trade causes a nation to purchase commodities, instead of producing them herself, the aggregate wealth in the country cannot be diminished—labour and capital are simply transferred from one industry to another; since, if a greater amount of commodities is purchased from foreign countries, a larger quantity must be also produced at home, in order to supply the increased exports which pay for these additional imports\*.

\* The political events which are occurring at the present time (the autumn of 1864) in one of our Australian Colonies, plainly prove that the fallacies of Protection are ever liable to be revived in all their pristine vigour. A General Election has just occurred in the Colony of Victoria, and a promise to impose protective duties was the chief feature in the Ministerial programme. The old battle between Protection and Free Trade has been fought out on the hustings in this, our most prosperous colony, and the Protectionists have achieved a most decisive triumph. If these colonial ministers fulfil their electioneering pledges, a protective tariff will be immediately introduced sufficiently onerous to prevent British merchants sending exports to this colony. The Melbourne correspondent of the "Times," whose letters are always as able as they are interesting and instructive, tells us that the protectionist party defend their conduct by quotations from the works of many political economists, including, amongst others, Mr. J. S. Mill. It is scarcely necessary to say that Mr. Mill has explained the mischievous fallacies of protection as clearly, and probably more clearly, than any other living writer. The Colonial protectionists maintain that he supports their views, because in one passage of his 'Principles of Political Economy' (*vide* Book v. Chap. x.) an opinion is expressed, that in the case of a young colony, a protective duty may occasionally be wisely imposed, if it can be clearly shown that this artificial encouragement may cause some branch of industry to be permanently and prosperously



In the present and preceding chapters we have briefly reviewed the chief circumstances connected with direct

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established in a colony, and if it can also be shown that this branch of industry might never have been introduced, if it had not been first stimulated and fostered by protection. Mr. Mill makes this exception in favour of a protective duty, because he supposes that any industry when first established in a colony has always to struggle with peculiar difficulties. The colony therefore will be placed under a great disadvantage, if it has to compete with a country in which some particular industry has been carried on for a long period. The colonial trader will relinquish this unequal struggle unless he receives some assistance from the State in the form of protection, and thus many different kinds of industry, for the successful prosecution of which the colony may perhaps have peculiar advantages, will be virtually banished from the colony. We think we have now presented the arguments of the Colonial Protectionists in their most plausible and favourable form. Mr. Mill has no doubt put a strong case, if we assent to the hypothesis upon which it is based. But in our judgment he has over-stated the peculiar difficulties which an industry has to contend with, when first introduced into a new colony. Australia has purchased from England nearly all the manufactured commodities she requires instead of producing them herself, because in England labour, machinery and fuel are cheaper than they are in Australia. It seems to us that there is no reason why these circumstances, which give to England a superiority in manufacturing industry, should act with less force if the Australians are induced to form manufacturing establishments by the promise that British goods shall be excluded from their markets. As long as labour, machinery and fuel continue to be so dear in Australia, that it is cheaper to buy goods in England and also pay in addition the cost of carrying them 12,000 miles, it cannot be supposed that manufacturing industry will thrive in this colony. But if in the course of a few years, the economic condition of Australia should change; if, for instance, labour should become so much cheaper in that country, that woollen or cotton goods could be made there cheaper than they could be imported from England, then it appears to us quite certain that woollen and cotton manufactures would thrive in Australia, and that their progress will not be impeded by any special difficulties, which are so formidable that they can only be vanquished by a protective tariff.

It seems to us most remarkable that this clamour for protection should have arisen in a community where the wages paid are higher than those which are received by the labourers of any other country. Moreover, in Australia the position of the capitalist is as satisfactory as is that of the labourer, for in previous chapters we frequently have remarked that in Australia fertile land is so abundant, and as a consequence the production of wealth is carried on under such advantageous conditions, that profits as well as wages are both extremely high. It is therefore evident that the various kinds of industry which flourish in that colony must be singularly remunerative, and the community must incur a serious loss if protective duties should artificially stimulate certain trades, which would be less productive of wealth in proportion to the labour and capital invested in them, than are the various branches of industry which are now carried on. Hence here, as in every other case, protection would exert a mischievous tendency to cause labour and capital to be transferred from one industry to some other which is less productive of wealth. In Australia the accumulation of wealth may be augmented almost without any assignable limit, if a sufficient

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A comparison is frequently made between direct and indirect taxation.

Such general comparisons are futile.

and indirect taxation. Writers on taxation usually make a comparison of these two different systems, and attempt accurately to balance the advantages and disadvantages of each. We think, however, that it is impossible fairly to make such a comparison, and the attempt may possibly lead to some rather mischievous results. For instance, if it can be shown that direct taxation is more in accordance with Adam Smith's four rules than indirect, the proposition is at once hastily propounded that the whole revenue of the State ought to be raised by direct taxation. We have intended that our remarks should prove the evil consequences which would be produced if such a proposal were carried into practical effect. The chief object, in fact, which we have had in view, has been to explain that direct and indirect taxation are both respectively accompanied with certain defects and inequalities which can only be partially remedied. Now it is impossible to decide with certainty, whether the defect which may belong to a direct tax is comparatively of greater moment than another defect which may be inseparably connected with a tax on a commodity. Thus an income-tax may be reasonably objected to on two distinct grounds: in the first place, it taxes savings, and therefore discourages the accumulation of capital; in the second place, it cannot be accurately assessed with regard to certain classes of incomes. All taxes on commodities are, however, subject to certain imperfections which are, as it were, peculiar to this particular kind of taxation; thus a tax on a commodity can be seldom made *ad valorem*, and therefore such a commodity as the tea which is purchased by a poor man is far more highly taxed than the tea which is purchased by the rich. What test therefore can we have, which will enable us to decide whether the unequal supply of labour is forthcoming; and the Protectionists in that country should not lose sight of the fact that their policy will make imported commodities dearer, and will thus diminish the advantages which a labourer will derive from emigrating to that colony.

ity consequent upon the difficulty of making taxes on commodities *ad valorem*, is of more serious moment than the discouragement which an income-tax places on the accumulation of capital?

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It should moreover be remembered that some particular section in the community must suffer as it were a special injury, if the incidence of a tax is unequal and unfair. Inequality of taxation really signifies that a tax takes an undue amount from some one class; it is therefore evident that all the particular defects which belong to each tax would be intensified, and would produce a concentration of inequality with regard to some one class of the community, if any tax should be so greatly increased that a large part of the revenue should be raised by it. For instance, the advocates of direct taxation would repeal most of the existing taxes on commodities, and would substitute an income-tax in their place. An income-tax of 5s. in the pound would thus be probably required, and such a tax could not be raised without increasing the evil consequences of an income-tax in a far greater ratio than the increase in the amount of the tax. Thus it is probable that our present income-tax does not to any serious extent discourage the accumulation of capital. But an increase of the income-tax to 5s. in the £ would so powerfully check the accumulation of capital, that the production of wealth would be greatly diminished, and the wage-fund of the country would also be so much decreased, that the wages of the labourers would be considerably reduced. Again, if the chief part of the revenue of the State was raised by an income-tax, the inequality of taxation would be greater than any existing at the present time, since certain classes, such as traders and manufacturers, can escape a portion of the tax without much fear of detection. We therefore think, that all the proposals that are advanced by amateur financiers to govern the taxation of the country by certain theories, are not only unsound in principle, but would

*An adherence to either kind of taxation exclusively must produce bad effects.*

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*The present mode of taxation cannot be radically changed with advantage.*

greatly increase the inequality of our present fiscal system. We, in fact, incline to the opinion, that the present mode of obtaining the revenue of the country cannot, with advantage, be subject to any radical change. We have endeavoured to show, that a moderate income-tax is not more objectionable than a tax on commodities, and we also think that the best commodities to be taxed are taxed at the present time. In the first place it may be observed, that we tax commodities of the most general consumption, and thus obviate the necessity of subjecting a great number of articles to customs and excise duties. With the exception of tea, the most heavily taxed articles are such luxuries as tobacco, spirits, beer, and sugar; moreover, the excise duties which are imposed do not seriously interfere with the successful prosecution of any branch of industry. It must, however, be borne in mind, that when we speak thus favourably of our present fiscal arrangements, we express no opinion as to the necessity of our present large national expenditure. This question, as we have before said, must be decided by the politician, and not by the political economist.

## CHAPTER IV.

## ON THE LAND-TAX AND POOR-RATES.

THE taxes which we propose to consider in this chapter are, a land-tax, and a tax imposed for the relief of the poor. We discuss these taxes in a separate chapter, because a land-tax differs in its incidence from all other taxes, and the tax which we levy in this country for the relief of our poor indirectly produces many important results, which ought to be carefully considered.

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*Peculiar  
nature of a  
land-tax.*

The first of these taxes possesses a special practical importance at the present time, for although a very insignificant portion of our own revenue is obtained from the land-tax, yet the principal part of the revenue of our greatest dependency, India, is provided by the taxes which are imposed upon land. The nature and incidence of the land-tax will be clearly understood, if we reflect upon the mode in which the dominion of Great Britain was established in India. The British traders who first settled in that country found it governed by a great number of petty rulers, who owned the soil, and derived their revenue by making their subjects pay a rent, or tax, for permission to cultivate the land. The dominions of these native rulers were obtained by the English, either by annexation, or by conquest; and, consequently, our government gradually became possessed of a great portion of the soil of India, and could exercise over it the same rights of property as those which an English landlord exercises over

*Importance  
of the land-  
tax in In-  
dia.*

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*The land-tax is often in the nature of rent.*

his own estate. The government in India takes the place of individual landlords, and the cultivators of the soil rent their land from the government instead of from private landowners. It, therefore, appears that there is no real, but simply a nominal distinction between a land-tax and rent, for we have already said, in a previous chapter, that rent is the price which is paid for the use of an appropriated natural monopoly. If land has been appropriated by the government, then the price paid for the use of this appropriated natural monopoly is received by the government, and is termed a land-tax. If, however, the price is paid to a private individual, then it is termed rent.

*The land-tax does not injure the cultivators of the soil.*

From these considerations it is evident, that as far as the cultivators of the soil are concerned, it can be a matter of no consequence whatever to them, whether they pay a land-tax to the government, or whether they pay rent to private landowners. Hence a land-tax is no burden upon the cultivator, nor does this impost cause any loss to the rest of the community. It therefore follows, that a land-tax, as long as it does not exceed a rack-rent, cannot increase the price of products raised from the land, for those who grow the products would not sell them cheaper if they paid rent to a private landlord, instead of paying the same amount to the government in the form of a land-tax. A land-tax consequently differs from all other taxes, for it possesses the excellent quality of providing a large revenue for the State without diminishing the wealth of any class in the community. Those, therefore, are completely in error, who quote the aggregate amount of taxation which is raised in India, in order to prove how heavily the people of that country are taxed. At least 19,000,000*l.* per annum is obtained in India by the land-tax, and it would be as unreasonable to consider this amount as a burden laid upon the people, as it would be to consider that the whole rent which is paid to English landlords in this country is an impost levied upon the cultivators of the soil.

It is, however, quite possible that a land-tax may exceed a rack-rent in amount, and the tax would, in this case, increase the price of agricultural produce. Suppose, as an example, that our government should arbitrarily take possession of all the landed property of this country. The English farmer would then rent his land from the State, and not from private individuals; the position of the cultivator would manifestly be unaffected by this unjust spoliation of property if rents were determined then, as now, by competition. The same rack-rent would, in fact, be paid by the farmers, and the price of agricultural produce need in no way be influenced by such a transfer of property. But let us enquire what would occur if the government resolved to levy a greater rent, in the form of land-tax, than the rack-rent which the cultivator previously paid. Let us, for instance, assume that the government levies 500*l.* a year in land-tax from a farmer whose rent had been previously 400*l.* a year. Now it will be remembered that a rack-rent is the price which is paid for the use of land when rents are determined by competition. Since, therefore, free competition of capital is supposed to exist, the farmer, after paying a rent of 400*l.* a year, will realise on the average of years the ordinary rate of profit upon his labour and capital. The extra 100*l.* a year which it is assumed the government attempts to levy from him, he cannot afford to pay; or, in other words, the payment of this additional sum will prevent him realising the ordinary rate of profit upon his labour and capital, unless he should be compensated by a rise in the price of agricultural produce. No class of traders will, however, continue an occupation if it is permanently less profitable than other branches of industry; hence it is impossible for a land-tax to exceed a rack-rent in amount without producing a rise in the price of agricultural produce. It therefore follows that all that portion of a land-tax which exceeds a rack-rent in amount is really contributed by the consumers of

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*If the land-tax exceeds a rack-rent in amount it must raise the price of agricultural produce.*

BOOK IV. agricultural produce, since the price of such produce is  
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*A land-tax which exceeds a rack-rent tends to throw the soil out of cultivation.*

Other considerations show, that when a land-tax exceeds a rack-rent in amount, a counteracting influence is brought into operation which diminishes the aggregate revenue which the land-tax yields. For it is evident that the importation of agricultural produce will be encouraged, if the price of such produce is artificially raised in the home market by an excessive land-tax. But if an increased amount of produce is imported, a diminished quantity of produce will be grown in the country itself. Directly, therefore, a land-tax is greater in amount than a rack-rent, a tendency is exerted to throw land out of cultivation. This tendency will continue if the land-tax is increased, and thus the area of land from which the tax can be levied will be gradually restricted.

*The land-tax in England only denotes that the State retains a small interest in the soil.*

The land-tax which exists in our own country forms only a very small part of the rent which is paid to private landlords. Such a tax should properly be considered to denote that the State has reserved a small pecuniary share in the ownership of the soil. The relative value of the shares which the landowner and the State respectively possess was very different formerly from what it is now. The land-tax in our own country has long since been commuted for a fixed money payment, and the tax has consequently not increased with the enormous advance in the value of landed property. As far as the cultivator is concerned, it makes no difference whether he pays the land-tax or not, because if it is arranged that the tax should be levied from him he manifestly pays so much less rent to the landlord. As we have before said, such a land-tax as that which exists in England merely denotes the fact, that the State possesses a certain pecuniary interest in the soil; and it is therefore evident that both the profits of the cultivator and the price of agricultural produce must be the same whether the land-tax exists or not; or, in other words,



whether the State has, or has not, reserved for itself a certain right of property in the soil. It might therefore have been a fortunate circumstance for the nation if the land-tax in this country were greater in amount than it is at the present time. It would now, however, be an unjust confiscation of property to increase the land-tax; such an augmentation of the tax would be paid entirely from the rent of landowners, and would therefore be as indefensible as any other impost levied upon one special class. But it would have been a boon to the tax-paying community if, when the land-tax was first imposed, its amount had been fixed not at a certain sum of money, but at a certain definite proportion of the value of the land. If this arrangement had been adopted, the amount which the land-tax yields to the revenue would have been constantly augmented in proportion to the increase in the value of the land; the amount of revenue thus raised, though constantly augmenting, would be felt as a burden by no class, because the land-tax is as it were spontaneously provided by the appropriation of a natural monopoly, and therefore the tax will yield a larger revenue as the value of this monopoly increases.

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*An augmentation of the land-tax now would injure the land-holders.*

The tithe which exists in this country is essentially a land-tax, and was originally equivalent in value, as its name implies, to one tenth part of the produce of the land; the tithe has not been usually termed a land-tax, because originally it was specially appropriated to religious purposes, and consequently did not form a part of the general revenue of the State. The greater portion of the tithes in this country has not since the Reformation served as religious endowments, for tithes are now generally possessed by private individuals like any other kind of property. A tithe is in fact a rent-charge upon landed property, and this rent-charge is frequently not possessed by the owners of the land. As far as the cultivator is concerned, it manifestly can be a matter

*Tithes are equivalent to a rent-charge.*

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of no consequence whether such a rent-charge does or does not exist. If the land which he cultivates is tithe-free, the whole amount which he pays for the use of it will be regarded as rent; if, however, the land should be subject to a tithe, the amount which the cultivator pays for the use of the land will be the same as it would be if the land were tithe-free; but the whole of this amount will no longer be considered as rent, for it will be shared between the landowner and the tithe-proprietor.

*The Tithe  
Commuta-  
tion Act.*

The tithe, like the land-tax, would be now very insignificant in amount, if it had been originally commuted as a fixed money payment. Previous to the Tithe Commutation Act, which was passed in 1837, the tithe was assessed as nearly as possible upon the principle of making it equivalent in value to one tenth of the produce of the land; the tithe consequently increased as the value of landed property increased, for the tithe would manifestly be augmented if the productiveness of land increased, or if the value of agricultural produce advanced. The main object of the Tithe Commutation Act was to facilitate the assessment of the tithe, and the amount which is now annually paid as tithe is determined by the average price of corn during the previous seven years. It is quite possible that tithe-proprietors may be ultimately injured by this commutation. The amount at which the tithe is now assessed being solely determined by the price of corn, it is evident that the tithe-proprietor is not benefited by a rise in the price of stock. We have frequently in this work expressed our conviction that stock is destined to become relatively much dearer than corn, because stock must be always difficult to import, whereas the area from which corn is obtained is rapidly extending. A tithe therefore constantly represents in value a smaller proportion of the whole value of the produce raised from the land, if the amount at which the tithe is assessed is not influenced by the rise in the value of stock, but is solely determined by the price of corn.

*It may be  
ultimately  
injurious to  
tithe-pro-  
prietors.*

A tithe-proprietor under the present commutation derives no benefit from the increased productiveness of land. Improved methods of tillage may double the produce which is raised from a farm, and yet the tithe paid upon it will not be increased, unless there is a rise in the price of agricultural produce. It was no doubt with great force urged by the promoters of the tithe commutation, that a tithe-proprietor ought not to share with the landowner the additional produce which results from superior agriculture. It was, for instance, maintained that the land is rendered more productive by the expenditure of capital upon it, and it would therefore be unfair that the tithe-proprietor should be benefited by an outlay of capital which has been entirely contributed by the landowner. It was moreover argued that the admission of this claim on the part of a tithe-proprietor might seriously impede agricultural improvements, since landowners would be reluctant to invest capital, if others were to share with them in the advantages of the outlay. This argument in favour of the Tithe Commutation Act no doubt shows that the nation may have received some compensation for the land-tax having been in this country commuted for a fixed money payment.

Poor-rates are in their incidence very analogous to the tithe; in fact they may be regarded as a land-tax which is applied to one special object, and which varies in amount in different districts, proportionately to the relief which the poor of a district may require. The poor of this country were first entitled to claim subsistence as a legal right, by the celebrated Act of Elizabeth. Previous to that time the poor were relieved either by the charity of individuals, or by the bounty of religious institutions. The dismemberment of the monasteries deprived the poor of their principal source of relief, and the nation then became impressed with the necessity of no longer permitting the indigent poor to depend for subsistence upon casual private

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*Tithe-proprietors derive no benefit from increased productiveness of the soil.*

*Poor-rates are analogous to tithes.*

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charity. The principle was then adopted which is still observed, that landed property should bear the burden of supporting the indigent poor. The principle has also been observed, that each district or parish should provide subsistence for its own poor. The rates which have been levied for the relief of the poor may therefore be regarded as parish rates; the administration and distribution of these rates have at different times been regulated by different rules. The present Poor-Law, which was passed in 1834, will probably remain permanent with few alterations. It introduced many important improvements into the system which previously prevailed, and on the whole, it seems difficult to devise a better system of poor relief than the one now existing.

*The Poor-Law of 1834*

*was especially intended to discourage out-door relief.*

The great improvement introduced by this Act of 1834, was the discouragement of out-door relief. Several contiguous parishes were by this Act formed into a union; and each union erected a building termed the union workhouse, in which in-door relief is given to the poor. Each parish appoints one or more guardians; these guardians form a body which administers relief to the poor throughout each union. Whenever relief is applied for, the guardians can decide whether out-door or in-door relief shall be granted. It is particularly important that this power should be reserved to them, because all the abuses which may be, and are, frequently connected with the poor law system, are due to out-door relief being too easily obtained. Such relief offers a premium upon idleness, because it is difficult to decide whether assistance claimed from the parish is really required to provide subsistence, or whether it is not obtained merely for the purpose of avoiding labour. It is therefore evident that, if a claimant for parish relief is subject to neither personal restraint nor to any other such inconvenience, improvidence and indolence will be greatly encouraged. The prudence which ought to govern men's actions will cease

to operate, a man will marry recklessly, and will save nothing from his earnings as a provision against old age or sickness, if he feels that without any discomfort or inconvenience he can always obtain assistance from the parish when he is distressed. These evil consequences which are attendant upon out-door relief were beginning to exhibit themselves in a very serious form previous to the passing of the Present Poor-Law in 1834.

The advantages of the present system are apparent, because any person who now applies for parish relief can be compelled to enter the union. The people of this country fortunately consider that a residence in a union is in some degree discreditable. Moreover the inmates of the union-workhouse are subject to certain restraints which are distasteful; the able-bodied are compelled to work, and man and wife, except in the case of the aged, are not permitted to live together. The food which is given in the union is quite sufficient to provide an ample subsistence, and no arrangement is permitted which would cause any one to endure personal hardship. The important end is nevertheless attained, of making a residence in the union so undesirable, that parish relief is rarely applied for, except by the truly necessitous. In Ireland, no out-door relief is granted, and the plan seems to work well in that country. In England, however, it is still thought desirable that many cases of distress should be relieved at the homes of the applicants. In the case of a long illness, it may be impossible, or, if possible, more expensive, to remove the patient into the union. Whilst he is in his own home, he can be nursed by his wife or his relations. Again, a widow who is left with a large young family, may be able to earn a partial subsistence for them, and she can thus, if receiving some small assistance from the parish, maintain herself and family by her own industry. If out-door relief was in such a case refused, the family would be compelled to enter the union; a great additional

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*The advantage of this consists in the discouragement of idleness.*

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expense would be thrown upon the parish, because it would be obliged to feed and clothe the family entirely, instead of providing them with some trifling relief. It therefore appears that our present poor-law system attains the important end of giving out-door relief in those cases only in which it is desirable to do so. At the same time, residence in the union-workhouse is so generally distasteful, that in-door relief would be seldom claimed except by those who cannot obtain work, or who are unable, from other circumstances, to provide themselves and their families with a livelihood. Hence little danger is incurred of diminishing either the industry or the prudence of the people, by giving too much assistance to the indolent and improvident.

*The opposition of Mr. Malthus and other writers to the poor-law is partly to be explained by the smaller prosperity of the country when they wrote.*

Many writers have expressed strong antagonism to the principle of the poor-law. Mr. Malthus was the most distinguished opponent of the system of poor-law relief, and his treatise on the subject exhausts the arguments which can be advanced in support of the opinions he advocates. It must be remembered, however, that Mr. Malthus observed the poor-laws in operation under circumstances very different from those existing at the present time. The country was then not as wealthy as now; continued war had interfered with the development of our national resources, and successive bad harvests at the commencement of the present century had caused great distress among the labouring classes. In the agricultural districts, half the able-bodied labourers were unemployed during the winter months. Out-door relief was then, as we have previously remarked, far more freely granted than now. When such a state of things existed, Mr. Malthus was naturally led to the conclusion, that industry and prudence amongst the working classes might be seriously discouraged by poor-law relief; he also had just grounds for concluding, that the poor-rates would soon absorb a considerable portion of the income derived from property, if some check were not placed upon

the amount of relief which was granted. But since Mr. Malthus wrote, the prosperity of the country has wonderfully advanced; capital has been so rapidly accumulated, that all the able-bodied labourers of the country can not only find work, but obtain higher wages than they were previously accustomed to receive. Our colonies, moreover, afford a prosperous career for the emigrant, and during the last twenty years our labour market, if redundant, has always been relieved by emigration. Although, therefore, a system of poor-law relief can now in our country produce few of those evils which once seemed imminent, yet it must not be forgotten, that poor-rates, however well administered, cannot either be raised or distributed without leading to some undesirable results.

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*Poor-laws, however, always produce some evils.*

We have, for instance, already stated that our poor-law has always been based on the principle, that each district or parish should maintain its own poor. It is evident that this principle, when carried into practical effect, leads in the first place to a law of settlement, and secondly, to great inequalities in the amount of poor-rates levied in different districts. A law of settlement is manifestly rendered necessary, because, since each parish is bound to maintain its own poor, some distinct rules or laws must be laid down, which will enable each parish to know who are the poor that really belong to it. A settlement in a parish signifies that a person has a right to apply to the parish for parochial relief. The rules or circumstances which give an individual a settlement in a parish are determined by the legislature; hence, a law of settlement necessarily belongs to our system of poor relief. Formerly, an individual belonged through life to the parish in which he was born; such a law of settlement, as we have previously said, has been very instrumental in causing a low rate of wages to prevail in particular districts. Each labourer was, in a great degree, restricted to the parish in which he

*The law of settlement*

*has tended to lower wages in particular districts.*

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*The land-tax is often in the nature of rent.*

his own estate. The government in India takes the place of individual landlords, and the cultivators of the soil rent their land from the government instead of from private landowners. It, therefore, appears that there is no real, but simply a nominal distinction between a land-tax and rent, for we have already said, in a previous chapter, that rent is the price which is paid for the use of an appropriated natural monopoly. If land has been appropriated by the government, then the price paid for the use of this appropriated natural monopoly is received by the government, and is termed a land-tax. If, however, the price is paid to a private individual, then it is termed rent.

*The land-tax does not injure the cultivators of the soil.*

From these considerations it is evident, that as far as the cultivators of the soil are concerned, it can be a matter of no consequence whatever to them, whether they pay a land-tax to the government, or whether they pay rent to private landowners. Hence a land-tax is no burden upon the cultivator, nor does this impost cause any loss to the rest of the community. It therefore follows, that a land-tax, as long as it does not exceed a rack-rent, cannot increase the price of products raised from the land, for those who grow the products would not sell them cheaper if they paid rent to a private landlord, instead of paying the same amount to the government in the form of a land-tax. A land-tax consequently differs from all other taxes, for it possesses the excellent quality of providing a large revenue for the State without diminishing the wealth of any class in the community. Those, therefore, are completely in error, who quote the aggregate amount of taxation which is raised in India, in order to prove how heavily the people of that country are taxed. At least 19,000,000*l.* per annum is obtained in India by the land-tax, and it would be as unreasonable to consider this amount as a burden laid upon the people, as it would be to consider that the whole rent which is paid to English landlords in this country is an impost levied upon the cultivators of the soil.



It is, however, quite possible that a land-tax may exceed a rack-rent in amount, and the tax would, in this case, increase the price of agricultural produce. Suppose, as an example, that our government should arbitrarily take possession of all the landed property of this country. The English farmer would then rent his land from the State, and not from private individuals; the position of the cultivator would manifestly be unaffected by this unjust spoliation of property if rents were determined then, as now, by competition. The same rack-rent would, in fact, be paid by the farmers, and the price of agricultural produce need in no way be influenced by such a transfer of property. But let us enquire what would occur if the government resolved to levy a greater rent, in the form of land-tax, than the rack-rent which the cultivator previously paid. Let us, for instance, assume that the government levies 500*l.* a year in land-tax from a farmer whose rent had been previously 400*l.* a year. Now it will be remembered that a rack-rent is the price which is paid for the use of land when rents are determined by competition. Since, therefore, free competition of capital is supposed to exist, the farmer, after paying a rent of 400*l.* a year, will realise on the average of years the ordinary rate of profit upon his labour and capital. The extra 100*l.* a year which it is assumed the government attempts to levy from him, he cannot afford to pay; or, in other words, the payment of this additional sum will prevent him realising the ordinary rate of profit upon his labour and capital, unless he should be compensated by a rise in the price of agricultural produce. No class of traders will, however, continue an occupation if it is permanently less profitable than other branches of industry; hence it is impossible for a land-tax to exceed a rack-rent in amount without producing a rise in the price of agricultural produce. It therefore follows that all that portion of a land-tax which exceeds a rack-rent in amount is really contributed by the consumers of

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*If the land-tax exceeds a rack-rent in amount it must raise the price of agricultural produce.*

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for the indolent and imprudent would be rewarded at the expense of the industrious and provident workman. The objections which have been urged against a national rate, apply in a much less degree to a union-rate. Such a rate would, moreover, provide a remedy against the evil which is so often caused by landlords refusing to have proper cottage accommodation on their estates, in order to avoid the poor-rates.

*Poor-rates levied upon land are really paid by the landowner.*

In conclusion, we may remark that the poor-rates when imposed upon land are really paid by the landowner; they are deducted from his rent, and are as much a charge upon land as is the tithe. In England it is customary for the poor-rates to be paid by the tenant-farmer and not by the landlord; it is, however, not the less true that the landlord, and not the tenant, really pays these rates, for if no taxation should be levied for the support of the poor, the landlord would be able to increase his rent, by the exact amount, which the tenant had previously been obliged to pay to the poor-rates.

*It is erroneous to suppose that poor-rates are solely a charge upon land when they are levied upon houses.*

It must however be borne in mind that these rates are not solely levied upon the land, but are also imposed upon dwellings, manufactories, and upon various public works, such as railways and canals. Political economists usually maintain that, even in these cases, the poor-rates ought to be regarded simply as a charge upon land. On this point, we venture to differ from many high authorities; for we believe it can be proved that in many cases poor-rates are not really paid by the owner of the land on which a dwelling-house or a manufactory may be built, but by the occupier of the house and by the consumer of the commodities which may happen to be produced in the particular manufactory. First, let us consider the case of a dwelling-house; and here it is evident that the rates must be paid, either by the owner of the land on which the house is built, or by the builder of the house, or lastly, by the occupier of the house. It is quite evident that the builder will not

pay these rates, because he will not invest capital in a trade unless he can realise the ordinary rate of profit. Thus, suppose that a builder considers 10 per cent. a fair interest for his capital; let it be further assumed that he erects a house, the whole cost of which is 1000*l.*; 100*l.* having been paid for the ground on which it is built, the building itself having cost 900*l.* This builder will have made a comparatively unprofitable speculation unless he obtains 10 per cent. on his outlay, or, in other words, unless he is able to let this house for 100*l.* a year. In all trades the profit realised is regulated by the competition of capital. Individuals will not continue to embark capital in a business unless they expect to obtain a fair average remuneration; it therefore seems to be conclusively proved, that the builder does not pay the rates which are levied upon the house he erects, because if he did so, his profits would be reduced below the ordinary rate, and he would not consent to continue an unremunerative business.

Having established this proposition, it necessarily follows that poor-rates must be paid either by the occupier of a house or by the owner of the land on which it is built. Let it be assumed that the rates are twenty pounds per annum upon the house which has been supposed to cost 1000*l.*, and which is let for 100*l.* per annum. Those who maintain that these rates are a charge upon the land, must be also prepared to admit, that if there had been no rates the owner of the land on which the house is built would have been able to have sold this land for a sum which would have yielded 20*l.* a year more than is yielded by the 100*l.*, this being the amount for which the land is really supposed to have been sold. Assuming therefore that the current rate of interest is 5 per cent., the land must have sold for 500*l.* instead of 100*l.* if we adopt the hypothesis that the poor-rates are a charge upon land. When investigating this question, it is essential to remember that the value of building land is in different cases determined by

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*Poor-rates usually fall upon the occupiers of houses.*

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two distinct sets of causes. In some particular situations building-land is absolutely limited in supply; thus the number of houses that can be built in Fleet Street cannot exceed some definite number; but when houses are erected on the margin of towns, the quantity of land which is available for building purposes is practically unlimited. In this latter case, the value of building-land cannot greatly exceed its agricultural value, because there is land contiguous, which would do equally well for building and which is only devoted to agriculture; this land therefore would be sold for building, if a price much exceeding its agricultural value was offered for it. In the case we have above supposed, where 100*l.* is paid for a plot of land, probably an almost indefinite number of similar pieces of ground could be obtained at the same price. If therefore there were no poor-rates, it is absurd to say that the same piece of land would be sold for 500*l.*, since the remission of these rates would only slightly increase the agricultural value of the land, and in the case we have been discussing, it has been shown that the value of the land when sold for building purposes cannot greatly exceed its agricultural value. Hence we affirm, that poor-rates and other rates are really paid by the occupier of a house, unless the house is in some special situation, such as Fleet Street, where the number of houses that can be built is absolutely limited. It can be easily shown that in this latter case these rates are really a charge upon land. The owner of a piece of ground at Charing Cross is virtually the possessor of a commodity, the supply of which cannot be increased. The pecuniary advantage of such a situation will be accurately calculated by those who are anxious to purchase a house in Charing Cross, and the estimate which different individuals arrive at, will determine the price which is offered for the ground.

*If a house  
is built in  
some parti-*

Let us suppose that some one engaged in business purchases the ground for 5000*l.*, and erects upon it a house

which will cost 3000*l.* Suppose that the rates on the house are 100*l.* a year; then if we capitalise the tax, assuming the rate of interest to be 5 per cent., the tax will represent an additional outlay of 2000*l.*, and therefore the whole building will cost 10,000*l.* We may further suppose that there were several other persons who would have given 4,500*l.* for the piece of ground, and they were prepared to have erected a house which would cost 3000*l.*, because they thought it would answer their purpose to expend 9,500*l.* (assuming the rates to be capitalised), in order to obtain a house in such a situation. Let us enquire what would take place if just before the bargain had been completed all the rates had been remitted. In our opinion, the value of the land would be immediately increased by an amount equivalent to the capitalised value of the rates. The individual who was before willing to spend 10,000*l.* in order to secure a house in this situation, would still be willing to spend this amount if it was necessary to do so. The competition of others would compel him to make this outlay, because there are those who are willing to spend 9,500*l.* to obtain a house in this situation. Hence the price paid for the land would advance, by an amount exactly equivalent to the capitalised value of the rates; or, in other words, the owner of the land would secure the whole advantage arising from the remission of the rates, and this is equivalent to saying that the rates are solely a charge upon the land. We therefore affirm, that the rates levied for the relief of the poor and for other purposes are really paid by the landowner, when a house is built in a situation, where the number of the houses that can be built is absolutely limited; but we also affirm that, in other cases, the burden of these rates almost entirely falls upon the occupiers of houses. This proposition appears to us to be of fundamental importance; for the occupiers of houses would not be injured by high and increasing rates, if the opinion of those be correct, who state that

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cular situation,  
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the occupier of the  
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such rates ought to be regarded as solely a charge upon land.

*The consumers of commodities really pay the rates which are levied upon manuf- factories.*

It is easy to trace the incidence of local taxation, when it is imposed upon manufactories. If, for instance, a cotton-manufacturer has to contribute 500*l.* a year to the poor-rates, his aggregate expenses are increased. Hence the cost of producing the goods which he manufactures is augmented; it therefore follows that the consumer must pay a higher price for these goods, because the value of a manufactured commodity is regulated by its cost of production.









